Playboy Enterprises, Inc.

1983 Annual Report

Financial Highlights at June 30

	1983	1982	1981
Operating Data			
Net sales and revenues from continuing operations	$193,672,000	$210,093,000	$221,512,000
Loss from continuing operations before income taxes	(11,224,000)	(14,477,000)	(14,891,000)
Loss from continuing operations	(12,187,000)	(16,190,000)	(14,273,000)
Income (loss) from discontinued operations	(5,306,000)	(35,491,000)	27,968,000
Net income (loss)	(17,493,000)	(51,681,000)	13,695,000
Loss per common and common equivalent share—continuing operations	(1.23)	(1.64)	(1.45)
Net income (loss) per common and common equivalent share	(1.77)	(5.23)	1.39
Year-end Position			
Net worth	$ 54,570,000	$ 71,977,000	$124,656,000
Book value per share	$ 5.51	$ 7.28	$ 12.64
Stock Price (High-Low)			
First quarter	10 1/8-7	12 5/8-7 3/4	17 3/8-15
Second quarter	8 3/8-6 5/8	9 1/8-5 3/4	15 7/8-12 1/2
Third quarter	11 1/4-6 1/2	9 1/4-6 1/4	15 3/8-12
Fourth quarter	14 1/8-9 3/8	9 3/8-7 3/4	17 -10 1/2
Dividends			
First quarter	—	—	—
Second quarter	—	$.06	$.06
Third quarter	—	—	—
Fourth quarter	—	$.06	$.06

Playboy Enterprises, Inc., *is a communications and entertainment company. The company publishes consumer magazines, produces video programming for the pay television technologies, operates a worldwide chain of nightclubs and markets quality merchandise bearing the Playboy name and related trademarks.*

Publishing

PLAYBOY reaches 27 million readers around the world each month through its U.S. and nine foreign editions, making it the largest and most successful magazine for men in the world.

GAMES, a unique monthly magazine of entertainment that is "read" with a pencil, is one of the fastest-growing specialty magazines.

The Publishing Division creates and sells Playboy calendars and specials, operates the largest company engaged in the exclusive distribution of American periodicals overseas, and this year began to sell its foreign publishing and licensing expertise to other publishers through Playboy International Publishing Services.

Video

The Playboy Channel, launched in November 1982, is one of the country's fastest-growing premium cable program services, with more than one-half million subscribers.

All four of Playboy's home videocassettes have earned rankings on the industry's best-seller lists.

Additional revenues are generated by licensing Playboy's video productions to over-the-air subscription television and foreign pay TV and home videocassettes.

Clubs

More than 600,000 keyholders pay $25 per year to belong to the Playboy Clubs in the United States and overseas. In 1983, two clubs opened in new markets: Lansing, Michigan, and Columbus, Ohio. During 1984, a redefined club concept will debut in New York.

Products

Playboy's products are licensed and sold around the world under the Playboy, Playmate and Rabbit Head trademarks. In calendar 1982, Playboy Products, licensed and directly sold, generated more than $150 million at retail.

To Our Shareholders

When new management took over just prior to the beginning of fiscal 1983, Playboy Enterprises was at a critically important point in its history. In fiscal 1982, the company had reported its first loss, $51.7 million. Moreover, the United States and most of the rest of the world were in a serious economic recession.

Recognizing the need to set priorities while moving toward our goal of profitability, your management set three immediate goals: completing the divestitures of unprofitable, unpromising businesses; achieving significant reductions of overhead expense; and keeping the company's balance sheet and liquidity strong. We have achieved all of these goals.

Nevertheless, we are obviously very disappointed by the fiscal 1983 loss of $17.5 million. While we are encouraged by the substantial reduction from last year's loss, our priority for fiscal 1984 is to bring the company all the way back to profitability.

Divestitures completed. As planned, during fiscal 1983 we repatriated to the U.S. $6.1 million, including interest, that had been in escrow from the sale of our United Kingdom casinos to Trident Television. We also accelerated collection of the remainder of the sale price for our two domestic resort hotels by converting a $10 million note to $8.4 million in cash.

Following the fiscal 1982 sale of the Playboy book publishing operations to Grosset & Dunlap, that company published the first book "authored" by Playboy, *The Playboy Advisor on Love and Sex.* We hope to pursue similar book opportunities to capitalize on our editorial strengths without a capital investment by Playboy Enterprises.

In April, we negotiated the sale of the Playboy Limousine Company's assets. In addition, because of continuing disappointing results from the Playboy Casino in the Bahamas, we executed an agreement with the Bahamian government to terminate our management contract.

Christie Hefner, President and a Director, and **Hugh M. Hefner,** Chairman of the Board and Chief Executive Officer. Other Members of the Board are pictured on the following pages.

Overhead reduced. Overhead expenses totaled $23.7 million in fiscal 1982 and $18.5 million in fiscal 1983. We expect even further reductions in fiscal 1984. Some of the 1983 reductions were accomplished by delegating more responsibility to the operating groups and creating fewer layers of management throughout the corporation. We believe this not only saves the company money, but also allows management to be closer to our businesses.

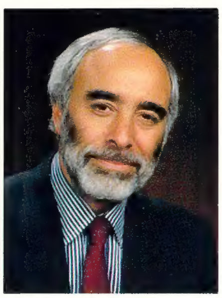
Balance sheet strong. We are pleased to report that Playboy Enterprises continues to be in a substantially debt-free position with cash reserves, as of the close of fiscal 1983, of $26.6 million. Moreover, we are continuing to pursue opportunities to turn non-income-producing assets into substantial amounts of cash, as we did this year with the sale of land in Spain, which had a book value of $1.3 million and which we sold for $2.4 million.

Profitability, marketing emphasized. Our 1984 priority, as we indicated earlier, is to return the company to profitability. The continuing reduction of administrative and operating expenses and the conversion of less productive assets into interest-generating cash will be a major program. A second and equally important program will be to focus on improving the marketing efforts and sales results of all of our major businesses. We expect to be helped by the improving economy, but we are not relying on this alone. In each of our four major business groups, we are taking affirmative actions to strengthen the appeal of our products to existing markets as well as to look for new market opportunities.

Publishing Division slates PLAYBOY repositioning. PLAYBOY magazine continues to be the largest revenue and profit source for the corporation as well as the largest-

Other Members of the Board

Marvin L. Huston
Executive Vice President
Office of the President



Richard S. Rosenzweig
Executive Vice President
Office of the Chairman

Melvyn N. Klein
Attorney; President and
Chief Executive Officer
Altamil Corporation

circulation magazine for men in the world. Having been hurt during the recession both in advertising pages and newsstand sales, PLAYBOY's 1984 plans include clearer product positioning as a contemporary lifestyle and service magazine and new targeted advertising campaigns to enhance both revenue sources. PLAYBOY magazine's third major revenue source, subscription sales, continues to be very strong, and we are able to acquire and renew subscriptions at both predictable and cost-effective levels. We have also identified ways of achieving significant reductions in the manufacturing costs of the magazine that do not diminish the quality of PLAYBOY and that will enhance fiscal 1984's bottom line. We look for a marked improvement in profit margins for PLAYBOY in 1984.

Our second consumer magazine, GAMES, was taken from bimonthly to monthly frequency in September, and advertising sales jumped from $900,000 in fiscal 1982 to $2.5 million in fiscal 1983. For fiscal 1984 we hope to see continuing increases in advertising acceptance and full-year effects of increases in both cover price and advertising rates.

Clubs target new concept, franchise expansion. The operating loss of $2.5 million in the Club Division came primarily as a result of sharp declines in club volume and key sales and renewals. However, the loss also included several nonrecurring charges and expected expenses associated with the closing of the New York City club in August. A new club will open in New York later this fiscal year which will debut a redefined Playboy Club concept in a smaller, more efficient space. We look to this new club to positively contribute to operating profits from food and beverage sales, as well as key sales.

We are also very encouraged by our success with club franchises within major hotels, a category that now includes last year's opening of a Lansing, Michigan, club in a Hilton Inn and promises to be an area of growth.

Products Division seeks new products, outlets. Playboy's direct product sales and licensed product operations were consolidated at the close of the fiscal year into a single Products Division, representing a commitment to unifying and strengthening the company's position in the marketplace under the Playboy, Playmate and Rabbit Head trademarks. We expect to see new product categories and new distribution outlets developed over the next year to enhance profitability from its 1983 level of approximately $3 million.

Video Division fulfills growth promise. Playboy's newest business, video production for pay television, lived up to its promise of growth in fiscal 1983. In the face of an increasingly competitive environment, in terms of both product and technology, we finished our first fiscal year of The Playboy Channel with an operating loss of $1.4 million. We are presently spending more money to develop original programming than our sales generate. However, we believe this commitment will help us increase cable sales and generate additional revenues from the redistribution of the nearly 160 hours of original programs in our inventory.

We closed the fiscal year at our projection of one-half million subscribers to The Playboy Channel on 275 cable affiliates. We are in the process of discussing a distribution arrangement with Rainbow Programming Services, which has been handling the cable distribution of the service since its launch. Previously, Rainbow and Playboy had been discussing the formation of a joint venture with Channel ownership to be equally shared. Our current discussions would give Playboy complete control and ownership of the Channel and its programs, and would involve the payment to Rainbow of a distribution fee for cable and possibly other forms of pay TV.

We receive an additional per-subscriber fee for Playboy programs licensed to SelecTV, which reaches nearly 250,000 viewers of this over-the-air subscription television service (STV) in major markets, including Los Angeles; other STV systems; and the 300,000 subscribers to Canada's only 24-hour national pay cable network, First Choice.

In addition, the first two of the quarterly Playboy Video home videocassettes and discs achieved more than $1 million in wholesale sales each, qualifying them for a "gold" designation by the Recording Industry Association of America.

Headed by broadcast and pay television pioneer Paul Klein, who was recruited in August 1982, the company's Video Division is successfully translating PLAYBOY maga-

zine's sophistication to video. The division is expected to contribute to the corporation's profits by fiscal 1985.

Atlantic City decision appealed. While we were disappointed by the recent refusal of a lower court to overturn last year's minority decision denying Playboy a permanent casino license in Atlantic City, we had expected that a further appeal might be required. Consequently, we have petitioned the New Jersey Supreme Court for the right to appeal the lower court ruling. We remain convinced that Playboy Enterprises is qualified for licensure in New Jersey.

In the meantime, as the casino industry in Atlantic City overall is increasingly successful, and our property appears likely to have its first solidly profitable year in calendar 1983, our 45.7% interest becomes more valuable. Our hotel/casino interest is presently carried on our books for $33 million, but we are confident that if sale is ultimately determined to be in the company's best interests or required by a final rejection of our appeals, we can negotiate a sale price in excess of book value. While we continue to consider divestiture opportunities, in the opinion of our counsel we are not required to divest our holdings in the hotel/casino until after the appeals process is exhausted.

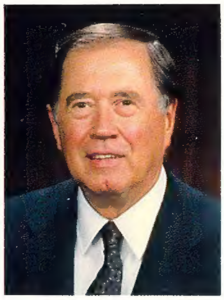
In conclusion, while we have made progress in fiscal 1983, we look to a return to profitability in fiscal 1984. We believe that this, our 30th Anniversary year, may well be marked not only by the final resolution of past difficulties, but also by marketing and financial successes.

Hugh M. Hefner

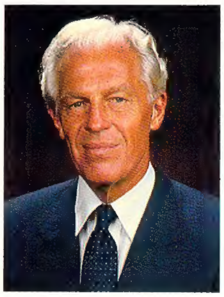
HUGH M. HEFNER
Chairman and Chief Executive Officer

Christie Hefner

CHRISTIE HEFNER
President



William A. Emerson
Professor of Journalism
University of
South Carolina



Donald W. Diehl
Publisher
Tampa Bay Business

David B. Heller
President
Advisory Research, Inc.

Publishing

As the publisher of the world's preeminent men's magazine, Playboy Enterprises during fiscal 1983 felt the impact of the magazine publishing industry's lingering slump in advertising and newsstand sales. Meanwhile, the costs of magazine production industry-wide continued to rise, although at rates generally lower than in previous years of higher inflation.

Despite this poor environment, the Publishing Division maintained the profitability of PLAYBOY magazine, brought GAMES magazine closer to profitability, and continued to capitalize on its publishing and distribution expertise—and its most valuable asset, the Playboy name—through a number of related activities: publishing Playboy flats and calendars, licensing PLAYBOY abroad, distributing PLAYBOY and other publications overseas through its Boarts subsidiary, and advising clients of Playboy International Publishing Services on foreign licensing opportunities.

Stockbroker Marina Verola caused a sensation when she posed for a PLAYBOY pictorial (March '83).

PLAYBOY still leader. PLAYBOY, now entering its 30th year of monthly publication, remains as exciting and controversial as the first issue conceived at Hugh M. Hefner's kitchen table in 1953. As it approaches its 30th Anniversary edition, set for January of 1984, PLAYBOY continues its circulation lead in the men's category, a lead it has held since passing *Esquire* in 1958. It also has embarked upon an ambitious program to adjust and sharpen its editorial focus. PLAYBOY is reinforcing its unique role as a strong voice for the young American male of the 1980s.

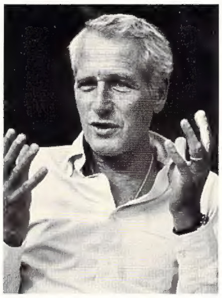
PLAYBOY made headlines with revelations that America's leaders believe a nuclear war can be fought—and won—in Robert Scheer's "With Enough Shovels" (December '82).

PLAYBOY sells more copies worldwide than any other men's magazine, and it ranks 13th among all U.S. magazines in circulation. Its domestic circulation guarantee to advertisers, 4.1 million, positions it 700,000 copies per month higher than its imitator, *Penthouse.* PLAYBOY delivers more men to advertisers than *Time, Newsweek* or *Sports Illustrated.* PLAYBOY's loyal readers in the U.S., nearly 18 million strong, join forces with an estimated 8.7 million readers of PLAYBOY's nine foreign editions in testimony to the magazine's unmatched strength as a premium advertising vehicle and a dynamic editorial package.

PLAYBOY continued to rank in the top ten of consumer magazines in combined advertising and circulation revenue, despite a 21 percent fall-off in advertising pages for the fiscal year. Moreover, the company has seen a positive trend in advertising page commitments beginning with the October 1983 issue.

Among those advertisers who found PLAYBOY particularly attractive in 1983 were Magnavox, which introduced its new home entertainment center with a special 12-page gatefold that sparked a sales success for the company as well as positive media coverage for both PLAYBOY and Magnavox; and more than 20 other companies which advertised in PLAYBOY's first-ever special advertising section celebrating the Grand Prix de Monaco auto race, including Honda, Toyota, Volvo, BMW Motorcycle, Wynn Oil, Dayton Tire, Seagram's, Optyl eyewear, British Sterling, Maxell and Canon.

Tempering a decline in advertising and circulation revenues overall of $18 million, or 13 percent, were significant cost reductions in the production of PLAYBOY. In 1984, we will receive the full-year benefit of a 20 percent cover price increase, to $3.00, effective with the October 1982 issue, and also the full year's impact of a subscription price increase to $22. Advertising rates were increased seven percent effective with the October 1983 issue.



A reprise interview with Paul Newman (April '83) exposed a complex individual who remains America's golden boy at age 58.

Throughout the year, PLAYBOY continued to bring its readers an unparalleled mix of provocative, entertaining and enlightening editorial features. And the magazine's promotional efforts helped remind readers of PLAYBOY's continuing social impact through consistent national media coverage of its more controversial subject matter, including *The Playboy Readers' Sex Survey,* a series of reports culled from the largest survey of sexual behavior ever undertaken; a pictorial story focusing on the physical assets of stockbroker Marina Verola; and a special report on terrorism that revealed potential vulnerabilities during the 1984 Los Angeles Olympics.

The *Playboy Interview* continued to seek out the best, the brightest and the funniest, among them master of horror Stephen King, master of microchips Akio Morita, master photographer Ansel Adams and master comedian of the short set Dudley Moore.

PLAYBOY also added to its cadre of columnists to strengthen the magazine's lifestyle and service orientations. Prominent critic Tony Schwartz began a monthly feature

PLAYBOY's unique mix of fiction, investigative reporting, distinctive pictorials, service features and incisive interviews has ensured its position as the best-selling men's magazine in the world for more than a quarter-century.


PLAYBOY
ENTERTAINMENT FOR MEN
FEBRUARY 1983 • $3.00
ROCKY MOUNTAIN SIGHS...
THE WOMEN OF ASPEN
PLAYBOY INTERVIEWS NOBEL PRIZE WINNER GABRIEL GARCÍA MÁRQUEZ
COVER GIRL
KIM BASINGER
SHE'S 007'S NEW WOMAN AND SHE'S A LOOKER! SEE EIGHT KNOCKOUT PAGES INSIDE
JOSEPH WAMBAUGH'S TOUGH NEW COP STORY MAKES "HILL STREET" LOOK LIKE "SESAME STREET"
HE HARSH EDUCATION F OLYMPIC HOCKEY ERO JIM CRAIG
E. L. DOCTOROW
OMING SOON—1984 LOOK AT TODAY'S REALITY S. ORWELL'S PROPHECY
THE YEAR IN SEX
IGHLIGHTS OF A ILD AND CRAZY YEAR

on television. Author and business observer Andrew Tobias initiated his *Quarterly Reports* on how to handle personal finances. And PLAYBOY's own Asa Baber introduced regular reflections on what it means to be a man in the complex sociosexual environment of the '80s.

PLAYBOY's unerring eye for fashion guides millions of readers each month. And beginning in December '83, the Playboy Guides series, incorporated into PLAYBOY, will enhance PLAYBOY's service orientation.

Baber's *Men* column is but one element of a PLAYBOY magazine refocused to serve its predominantly male audience—to become the magazine that men can't do without. The refocused PLAYBOY will place a greater emphasis on fun and entertainment, but it will also serve as a lifestyle compass for the American male who wants assistance in navigating the shifting currents of fashion, of consumer affairs and of sex and sexual relations. This refocusing will include the incorporation of the *Playboy Guides* series as bound-in sections on a regular basis, with the *Playboy Guide to Electronic Entertainment* set for December publication.

Overall, PLAYBOY will be even more upbeat and visually exciting, with additional attention and space devoted to making the magazine a handbook for young men. Particular emphasis will be placed on boosting newsstand sales and, to accomplish that, the Publishing Division will strengthen its promotional efforts and increase its commitment to consumer advertising.

Are technology and drugs making the world's athletes something more—or less—than human? PLAYBOY attempted to answer that challenging question in "The Ultimate Athlete" (April '83).

Growth is story of GAMES. In its initial year of monthly publication, GAMES recorded significant gains in advertising pages. GAMES, the first-ever "interactive" magazine, inspires reader involvement and loyalty that advertisers increasingly recognize as an important bonus. Indeed, 60,000 readers responded to the magazine's cover contest in November 1982, just one example of why GAMES' advertising revenues per issue increased in fiscal 1983 over the previous year.

Everything in GAMES magazine is designed to challenge its readers, including the cover. GAMES went from bimonthly to monthly publication in September '82.

With advertisers responding enthusiastically to monthly frequency, advertising pages sold during the fiscal year totaled 355, a 150 percent increase. GAMES' first monthly edition, in September 1982, maintained the publication's bimonthly circulation level. Since then, GAMES has experienced circulation growth and increased its rate base guarantee to 650,000 from 600,000, effective with the May 1983 issue.

"The Compact Video Treasure Hunt" was a special promotion conceived by GAMES to introduce JVC's new compact audio/video system at retail outlets nationwide.

GAMES enjoys an affluent readership of thinking, probing and fun-loving men and women interested in a wide variety of leisure activities. Their dedication to GAMES is impressive: readers spend an average of eight hours with every issue, according to a recent study by Yankelovich, Skelly and White.

GAMES' devotees have no trouble filling those eight hours. In addition to its regular mix of mindbenders, quizzes and word puzzles, GAMES offers service features on the newest and best in video games and home computers. The annual *GAMES 100* feature provides essential guidance on popular family games just in time for the holidays. And celebrities such as Stephen Sondheim occasionally reflect on their favorite leisure-time activities in GAMES.

A flair for promotion has helped GAMES take its place as a nationally recognized publication. This year, the magazine sponsored the First U.S. Open Crossword Puzzle Championship, attracting contestants and news media representatives from around the country. Some promotions are created in conjunction with GAMES advertisers, many of whom have discovered the unique merchandising potential of GAMES.

GAMES will increase its advertising rates six percent effective with the October 1983 issue. The publication also will seek to broaden its base of advertiser categories and to further refine the editorial product of what *American Way* magazine has called "something of a games players' bible . . . a smashing success."

Readers couldn't get enough copies of PLAYBOY Netherlands the first time around; it was a newsstand sellout.

Foreign Editions include a Dutch treat. Fiscal year 1983 saw the introduction of PLAYBOY's ninth foreign edition: PLAYBOY Netherlands. An immediate newsstand sellout, the first issue went into a second printing—no surprise to the International Publishing Department, which has capitalized on PLAYBOY's worldwide recognition and popu-

PLAYBOY's "20 Questions" feature offers a quick look at celebrities on the cutting edge. Above, musicians Frank and Moon Unit Zappa discuss the highs and lows of American culture in the '80s (November '82). Many elements of PLAYBOY's U.S. edition are adapted for use in its nine foreign editions.

Actor Peter O'Toole was profiled in the August '82 PLAYBOY.

larity since the premiere PLAYBOY foreign edition hit German newsstands 11 years ago.

Total readership of PLAYBOY's foreign editions approaches nine million, with sales nearing 1.7 million copies monthly. Licensed editions of PLAYBOY are published in Australia, Brazil, France, Italy, Japan, Mexico and Spain, in addition to Germany and the Netherlands. These editions incorporate material translated from the parent publication with originally produced editorial content to create a magazine suiting local tastes while retaining the sophistication and look of PLAYBOY's U.S. edition.

PLAYBOY Germany has shown particular strength, reaching an all-time circulation high of almost 500,000 copies. PLAYBOY's German publishers also have mounted a successful Playboy book licensing program, issuing popular softcover titles under the Playboy imprint. Offerings include best sellers, science fiction, thrillers, humor and erotic novels. Licensed Playboy books are available in Japan as well, supplementing PLAYBOY Japan, the second-largest foreign edition in circulation.

During fiscal 1984, the International Publishing Department will expand its licensing efforts to include additional Playboy-inspired books. The department is also exploring the feasibility of a Greek edition of PLAYBOY.

Playboy International Publishing Services formed. In December, Playboy announced the formation of Playboy International Publishing Services (PIPS), a consultancy to advise and assist American publishers in licensing their magazines for publication abroad. PIPS employs Playboy's knowledge and expertise developed during 11 years of licensing PLAYBOY magazine in lucrative foreign markets.

American Health magazine, the first client of PIPS, plans to publish a licensed Japanese edition during fiscal year 1984, and PIPS is exploring additional licensing opportunities for *American Health.* PIPS also continues to seek relationships with other publishers looking to expand internationally the reach of their magazines.

PLAYBOY's annual Music Poll provides a major vehicle for both reader involvement and circulation promotion.

Boarts subsidiary expands. Playboy's wholly owned subsidiary, Boarts International, Inc., distributes PLAYBOY magazine and the publications of 48 client publishers in international markets. The company is responsible for the export of approximately one-third of all American magazines distributed internationally.

In 1983, Boarts signed distribution agreements with eight new publishers, representing 14 titles. As international distributor, Boarts offers clients a full range of management services, including sales promotion and marketing assistance, professional EDP reporting and traffic management.

While the strong U.S. dollar, continuing political unrest in Central America and economic crises in several key Latin American countries contributed to Boarts' failure to reach profitability, we expect improvements in the industrialized countries and are encouraged that a number of leading publishers are providing the necessary financial support to promote the sale of their publications in prime markets.

Playboy's Girls of Summer, like all of Playboy's "flats," uses material already owned by Playboy to produce extra revenues for the Publishing Division.

New calendar format set for 1984. Playboy's calendars, featuring the famous Playboy Playmates, and Playboy "flats," oversize softcover books reprising the best of PLAYBOY magazine, remain popular bookstore, newsstand and mail order items. Their value to Playboy is enhanced because they generate additional revenues from material already owned by Playboy.

In 1984, a larger-size wall calendar will be added to Playboy's calendar lineup, which presently includes one wall calendar and a desk-top version.

Playboy published five flats during the year: *Dreams, The Girls of Playboy 4* (a reissue), *Playboy Bunnies #3, The Best from Playboy—Number Ten* and *Playboy's Girls of Summer.*

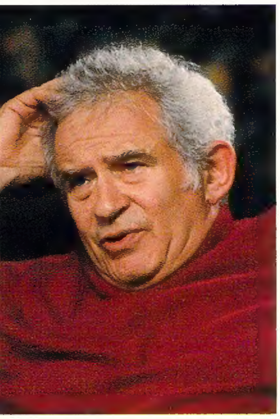
Playmates provide advertiser support. Playboy's famous Playmates are available for personal appearances to promote the company's various business operations and to support the promotion programs of PLAYBOY magazine advertisers, Playboy's video partners and the company's product licensees. Bookings are coordinated by a separate division of the company, Playmate Promotions, which also operates Playboy modeling agencies in Chicago and Los Angeles. Playmates appear at conventions, automobile shows, trade shows and other special events. The largest Playmate promotion during the year was conducted with Anheuser-Busch, which created a national Michelob Light Playmate tour. The Michelob Light Playmate promotion continues during fiscal 1984.

Jean Harlow, as captured photographically by George Hurrell in 1935 (January '83). PLAYBOY has no peer in the presentation of the world's most beautiful women.

Video

Last year, your company reported that it had positioned itself to take full advantage of the burgeoning pay TV and home video industry. In 1983, we can report to you with pride that, during the fiscal year just ended, Playboy Enterprises took great strides toward achieving the promise that the pay video technologies have to offer a company with Playboy's worldwide recognition and acceptance, marketing expertise and communications skills.

New electronic home media: a continuing evolution. Industry experts and casual observers alike have some difficulty staying on top of new video technologies. This is because, in part, new means of reaching paying consumers with home video programming are being developed seemingly overnight. But experts and nonexperts agree on one fact: consumers are not hesitating to take advantage of the delivery technologies available to them which best meet their entertainment needs, and the entire industry is consequently one characterized by rapid and steady growth.



Playboy's most popular video program, a television translation of PLAYBOY magazine, continues the tradition of the "Playboy Interview." Above, Norman Mailer discusses his controversial career.

Nearly 40 percent of all American households subscribe to some form of cable television service, a jump of ten points, or about 8,500,000 homes, in less than two years. An estimated 32 million American homes pay a monthly fee for basic cable programming, and more than half pay extra fees per month for premium cable services such as Home Box Office, Showtime, The Disney Channel and The Playboy Channel. Cable television, with its unsurpassed diversity of programming, is clearly the dominant form of pay television today, even though it is available to only 68 percent of American homes.

Many Playboy video magazine programs include a "Ribald Classic," another feature popular with readers of PLAYBOY.

Additionally, more than one million American homes are equipped to receive over-the-air subscription television stations (STV), which, like cable, charge a monthly fee for premium program offerings.

Other growing sources of video programs include satellite master antenna television systems (SMATV), which serve apartment complexes and hotels; multipoint distribution services (MDS), which compete with STV and SMATV systems in some markets; and direct-broadcast satellite (DBS) systems, which eventually will provide multiple program services to individual subscribers who purchase or lease small satellite receivers, or "dishes," for home installation.

About eight percent of all American households own a videocassette or videodisc playback unit, compared with less than three percent of American homes only two years ago. As prices for home video equipment continue to fall, the number of home video unit owners is expected to rise considerably.

Playboy's Video Division produces programming well-suited for each of these technologies, and is actively supplying, or is examining opportunities to supply, video programs via all of these methods of distribution to paying subscribers in domestic and foreign markets.

THE PLAYBOY CHANNEL

Playboy Channel passes half-million mark. Launched officially in November 1982, The Playboy Channel topped one-half million paying households by the close of the fiscal year and remained one of the country's fastest-growing and most-talked-about pay cable services. The Playboy Channel is carried by more than 275 cable systems and offers a nightly ten-hour lineup of original programming and feature films.

Former NBC programming chief and pay TV pioneer Paul Klein was recruited in August 1982, to develop a marketing plan and create Playboy's original programming, which premieres on The Playboy Channel and then is licensed for subscription TV, home videocassettes, and pay TV in foreign markets. By the end of calendar 1983, more than 200 hours of original programming will be on tape and film, constituting an inventory that should provide the company with a continuing source of revenues for years to come.

As the ratio of original programs to licensed adult feature films has increased, so has subscriber satisfaction. The Playboy Channel's subscriber satisfaction percentages are now at a level generally consistent with many of the larger, broader-interest pay cable services, such as Home Box Office and Showtime. We believe this is because Playboy's

Technicians put the finishing touches on "Sexcetera . . . The News According to Playboy."

original programs successfully have captured the style, sophistication and wit that have characterized PLAYBOY magazine for 30 years. Our goal is to replace many of the non-original licensed feature films on The Playboy Channel with original programs and made-for-Playboy movies, thus improving subscriber retention statistics even further and underscoring a key marketing advantage: Playboy's programs premiere on The Playboy Channel.

Dan Kain and Crystal Smith.

Comedy is a staple of The Playboy Channel.

Our most popular program is a monthly video translation of PLAYBOY-in-print, which includes a Playmate feature pictorial, a celebrity interview, one of Playboy's famous *Ribald Classics*, lifestyle information, comedy spots and fast-moving special feature segments. Another program ranked high in popularity by Channel viewers is *Sexcetera . . . The News According to Playboy*, which covers in television newscast fashion topics that generally do not receive attention on conventional television news broadcasts. Co-anchors Dan Kain and Crystal Smith skillfully report the news and introduce each special filmed or taped report with a typically light, yet professional touch.

Women constitute about 40 percent of our viewership, so programs designed to appeal to women as well as men appear frequently on the schedule. *The Girls of the Comedy Store*, a comedy special produced by Playboy, was a favorite of women, and it became the first in a regular series of comedy offerings now in great demand by both women and men. Another program enjoyed by women is *Nancy Friday's Intimate Lives*, an exploration of fantasy and its importance in the human experience.

Lisa Raines stars as "Fanny Hill," a theatrical release which had its U.S. premiere on The Playboy Channel.

John Ireland and Callan White discuss corporate politics in "A Matter of Cunning," a boardroom drama made for Playboy. Tammy Grimes also stars.

Focus group research conducted during the fiscal year noted that couples frequently watch The Playboy Channel's erotic offerings, such as the U.S. premiere of the theatrical movie based on the classic novel, *Fanny Hill*, during moments of intimacy. In fact, many couples surveyed indicated that Playboy's programming has helped them improve their relationships by providing guidance and information about the delicate balance between the sexes, and that our programs have made their mates "more loving." Playboy recognizes its responsibility to its viewers and, consequently, offers programming which provides a healthy, joyful outlook on sexuality, an outlook that excludes violence. We believe that The Playboy Channel is the least violent program service available on either commercial or pay television.

This commitment to nonviolence, and our choice not to program "X"-rated movies in their "X"-rated forms, helps us gain access to cable systems when operators are sensitive and concerned about adult program services.

Home video strikes "gold." Playboy's home videocassette and disc offerings have achieved a number of "firsts" for the company.

The Playboy Video series, distributed by CBS/FOX Video under an exclusive licensing arrangement, has generated two "gold" certifications by the Recording Industry Association of America, the first time that any company has received two gold cassettes for originally produced home video entertainment. The gold status signifies sales and rentals in excess of $1 million at wholesale. And in May of this year, Volumes One and Two of the Playboy Video series both were ranked in the top ten of *Billboard* magazine's weekly sales rankings, the first time any producer of original home video material had two releases in the top ten simultaneously.

Each of Playboy's videocassette and disc releases to date has achieved best-seller status.

These Collector's Edition quarterly releases include selections from The Playboy Channel's magazine program, re-edited to accommodate a longer (80-minute) format. Thus, Playboy can, at minimal expense, generate additional revenues from Playboy Channel productions.

During the year, CBS/FOX Video also released a *Playmate Review* home videocassette and disc, and plans other special releases in addition to the quarterly magazine series.

The Playboy Video cassettes, in VHS and Beta formats, retail for $59.95 and are available for sale and rental in many of the nearly 10,000 video outlets nationwide. The videodiscs are considerably less expensive, but sell in smaller quantities due to the relatively small number of disc players currently owned by consumers. Special CBS/FOX releases such as *Playmate Review* sell at reduced prices in cassette and disc.

In addition, CBS/FOX Video has mounted an aggressive overseas marketing program for the Playboy home video releases, and currently is making the Playboy Video series available in England, Australia and Germany. Other countries will be added during fiscal 1984.

Popular comedy duo Cheech and Chong enjoy their "Playboy Interview," conducted poolside at Playboy Mansion West.

Subscription television an additional market. Original programs initially produced for The Playboy Channel are now available on a weekly basis to an estimated 250,000 paying subscribers to the SelecTV system, with over-the-air subscription television stations in Los Angeles, Dallas and Milwaukee, and SMATV distribution systems in approximately 30 other markets nationwide.

Playboy's programs air on a nonrepeating basis each Friday night for a three-hour bloc beginning at 10:30, titled *Playboy Showcase.*

The newly announced SelecTV arrangement provides Playboy's Video Division with additional revenues-per-subscriber for programs already produced. Just as important, it provides Playboy an outlet in a significant market not yet completely wired for cable, Los Angeles, and familiarizes all of SelecTV's viewers with Playboy's offerings. We believe that our continuing presence on over-the-air subscription TV stations and SMATV systems nationwide will create viewing habits which will result in greater demand for The Playboy Channel in noncabled communities served by these alternative technologies, once those communities are reached by cable.

Some of Playboy's programming is available on noncompeting over-the-air subscription systems in additional markets. Playboy's TV magazine program, for example, is shown over Oak Media Development Corporation's ON-TV outlets in Chicago and south Florida, as well as on STV stations in New York City, Boston, Washington and Baltimore.

The "Playmate Guide..." series provides viewers with physical fitness tips as only Playboy's Playmates can present them.

Syndication promises revenue enhancement. An additional source of revenues for the Video Division is syndication, both foreign and domestic. Playboy continues to seek out alternative outlets for its programming which can increase the return-per-program on the company's original productions and feature films.

The company's initial syndication agreement was announced in January 1983, and constitutes a one-year licensing and co-production arrangement with Canada's First Choice national pay cable network, which initiated a 24-hour program schedule in February. First Choice airs several hours of Playboy-produced programs each week under the title *Playboy Weekend.* Some of these programs have been co-produced by Playboy and First Choice, thus reducing Playboy's costs while giving the company exclusive rights to the programs for all non-Canadian uses. First Choice had nearly 300,000 paying subscribers for its English- and French-language services combined by fiscal year-end.

Hugh Hefner shares a smile with Playmate Lonny Chin, who graces the cover of Playboy Video Volume One, at the official launch of the quarterly Playboy Video series distributed by CBS/FOX Video. Also pictured: Alan Hirshfield, chairman, 20th Century-Fox Film Corporation; and Steve Roberts, president, 20th Century-Fox Film Telecommunications (far right).

During the year, the Playboy Distribution Company allowed the Video Division to further capitalize on foreign and domestic syndication opportunities. The company also announced an association with The Silverbach-Lazarus Group, a preeminent program syndication consulting organization.

Music, comedy and cabaret excitement combine to make "Playboy Follies" a must-see for subscribers to The Playboy Channel, SelecTV, and Canada's First Choice pay cable network.

With the assistance of Silverbach-Lazarus, the Playboy Distribution Company in May signed an exclusive agreement with Intervision, Britain's leading independent video software distributor, granting Intervision home video rights in the United Kingdom to all material produced and broadcast on The Playboy Channel other than the exclusive rights to the Playboy Video series held by CBS/FOX. Intervision, like CBS/FOX, pays a minimum fee per cassette, and the company expects to distribute up to 50 cassettes per year over the three years of the agreement.

Outlook promising. We are more convinced than ever that major growth in years to come will be realized in the company's video operations. With an operating loss in its first year of $1.4 million, we expect this new division to achieve profitabilty by fiscal 1985, an accelerated pace when compared to other successful pay TV companies.

While the bottom-line performance of the Club Division was disappointing as a result of reduced food and beverage revenues, as well as key sales, fiscal 1983 marked the beginning of a transition for the Playboy Clubs. During the year, we opened two new franchised clubs in smaller markets, one in a hotel, and we developed a redefined Playboy Club concept scheduled to debut in New York City in fiscal 1984.

As the worldwide economy showed signs of gradual improvement, the restaurant and bar businesses likewise began edging up in overall performance, a positive signal that Playboy Clubs, strongly identified by approximately 670,000 keyholders as preferred drinking and dining establishments, are positioned for growth in the current year. To underscore this positioning, the Club Division is taking steps to reinforce the role of Playboy Clubs as meeting, mixing and entertainment spots by designing new clubs with a more informal look.

All 16 Bunnies of the Year for 1983 pose with Hugh Hefner before beginning a week of festivities in Los Angeles. The Bunny of the Year promotion helped boost door volume at Playboy Clubs in the United States and overseas.

Lansing points direction. The company's two newest franchised clubs are in Lansing, Michigan, and Columbus, Ohio, and each has attained rapid popularity with both women and men. Both clubs are operated by experienced hospitality industry firms. Their management expertise, combined with the convenience of on-site food and beverage preparation facilities in the Lansing club, located in a Hilton Inn franchise, point the direction for future Playboy franchise relationships. The franchisee of the Lansing Playboy Club believes that the presence of the club in their hotel has contributed more than $1.5 million in sales to their operation in the first year, and has improved hotel occupancy rates by about ten percent. We can report similarly positive in-hotel experiences over the last few years with our Buffalo and St. Louis franchises. Consequently, a major effort will be made in fiscal 1984 to pursue other such host relationships.

"Celebrate!" That's the message Playboy Club keyholders are reading and hearing in a new promotion aimed at increasing club visits. Keyholders receive a complimentary "celebration package" to mark a personal event such as a birthday.

New concept will debut in New York. The New York Playboy Club is scheduled to reopen this year with the most dramatic changes yet in the continuing evolution of the Playboy Club concept, intended to attract new keyholders closer in age to the readership of PLAYBOY magazine. The club will be located in a hotel at 48th Street and Lexington Avenue now being renovated and upgraded by the Taj International Hotel group. An adjacent Playboy-operated and identified public bar will employ a variety of marketing tools, including video displays that preview what is happening in the private Playboy Club, to encourage bar patrons to become keyholders.

Once inside, keyholders and their guests will fully appreciate Playboy's cutting-edge role in the entertainment applications of video technology. Video screens are planned in a variety of locations to help set the mood for an evening of high-energy entertainment. While the video will serve to create an environment, it will not intrude upon the favorite activities of Playboy Club keyholders—drinking, dining and dancing.

Of course, the club will retain the popular features keyholders have found most appealing, including the glamorous Playboy Bunny, the Playmate Bar, and a gift shop featuring items bearing the Playboy name and trademarks. All activities will take place on a single club level emphasizing a natural, comfortable flow from one area to another. The dining area in the New York club, the Grill Room, will be smaller and less formal than that found in the former, multilevel New York location.

The club is being designed by architect/designer Adam Tihany, responsible for such innovative interior spaces as New York's Club A, La Coupole and the DDL Foodshow gourmet shops in Manhattan and Beverly Hills.

Playboy Clubs offer the best in dining, as well as dancing and entertainment.

Promotional activities boost club visits. Although key sales were down for the year and door counts were disappointing, the Playboy Clubs aggressively pursued in-club promotional opportunities to blunt the negative impact of the sluggish economy on overall results. System-wide, the Club Division promoted keyholder participation in its Bunny of the Year contest. Keyholders were encouraged to visit their club and select a favorite Bunny, who then joined finalists from the other Playboy Clubs in a week of special events in Los Angeles designed to attract national media attention.

And the Video League promotion generated much enthusiasm among games-playing keyholders, who flocked to the Playboy Clubs to challenge other keyholders at video games. The top two finalists were flown to Los Angeles for the Video Showdown, a tournament co-sponsored by the Playboy Clubs and GAMES magazine.

The Playboy Club of Lansing, shown here, is one of the company's most successful club franchises. The club is owned and operated by a Hilton Inn franchisee. Playboy is actively seeking other club franchise arrangements with experienced hotel operators.

Products

As a natural extension of the worldwide appeal and recognition of the Playboy name and symbols, Playboy's Products Division licenses and sells directly high-quality consumer products bearing the Playboy Rabbit Head trademark and other Playboy-owned marks.

By consolidating its product sales and licensing operations into a single Products Division, Playboy has been able to strengthen its commitment to the marketing of quality consumer items. In fiscal 1983, the company expanded both its men's and women's apparel lines and also renewed its emphasis on accessories that accentuate the Playboy lifestyle.

Merchandise sales grow. Despite continuing worldwide economic difficulties, merchandise marketed under the Playboy trademarks sold in excess of $150 million at retail in calendar 1982. Some of this volume was due to an expansion of Playboy's direct marketing operation, which mailed catalogs to a list of more than 1.5 million consumers.

Playboy's licensing operations experienced an overall dollar improvement, and U.S. sales volume topped Japanese volume for the first time in fiscal 1983. However, the Orient continues to account for nearly 40 percent of all licensing revenues, with Europe, New Zealand, Australia and Canada making up the remaining ten percent of non-U.S. licensing revenues.

The man of fashion requires these Playboy accessories: solid brass, personalized business card case; gold-finish letter opener with knife; money clip; double-ace key ring; Rabbit Head key chain.

Group of licensees widens. This improvement is partially attributed to Playboy's expanded group of more than 60 licensees. Recent additions include Equus Sportswear, which manufactures and markets men's outerwear, and Glenn Jay Industries of Montreal, which produces and sells men's and women's jeans, and men's shirts and fleece tops, throughout Canada.

Both Playboy's established and new licensees of menswear experienced increased demand for athletic and all-court shoes, men's briefs, socks and various other accessories. Playboy Sunglasses, licensed by Optyl Corporation, a leading national distributor of eyewear, found sales surpassing all expectations after a major outdoor advertising campaign in New York City in the third quarter.

More than 100 different styles of Playboy footwear for men are marketed by Smerling Imports, Inc., a Playboy licensee. Smerling also licenses Playboy athletic bags.

Women's line growing. Playboy's women's apparel lines, slightly more than a year old, already account for close to ten percent of Playboy Products' business. Kick-A-Way panties and sleepwear, marketed under the Playmate name, quadrupled revenue expectations. In addition, Playmate swimwear made an immediate hit with contemporary women when it debuted last spring. Negotiations are now under way to expand the Playmate lines to include active sportswear and hosiery.

Company takes advantage of unique position. Benefitting from its unique market position between designer names and mass brands, Playboy's Products Division looks forward to continued success in marketing consumer merchandise. New licensees and product lines being introduced in fiscal 1984 include Jess & Co., for men's dress and sports shirts, and Ontime Corporation, for men's and women's fashion watches, as well as a line of clocks.

The company also has licensed Allison Corporation to produce a full line of Playboy brand automotive accessories—from steering-wheel covers and seat covers to visor mirrors and shift knobs.

Playboy's glassware is a welcome addition to any bar.

Trademark protection continues. As the popularity of Playboy Products increases, so does the company's vigilance against trademark infringements. In California, the U.S. District Court of Appeals confirmed an award to Playboy of more than $300,000, an amount determined from the profit Baccarat Clothing Co. had made on the sale of jeans illegally carrying the Playboy trademark plus costs and attorneys' fees. Last April, authorities confiscated thousands of apparel items illegally bearing Playboy's trademarks when they raided a number of Atlantic City retailers.

The Zeta Zukki lines of Playboy sportswear and swimwear for men and women are among Playboy's most popular apparel items in Europe. The photo opposite appeared in a recent brochure produced by the Italian licensee.

Public Affairs

While the Playboy Foundation has been the company's primary vehicle for supporting significant social and political causes and issues, as well as important charitable activities, Playboy Enterprises has traditionally pursued a variety of additional community relations and public affairs activities that are integral to its corporate citizenship. In fiscal 1983, the company consolidated these activities into the Public Affairs Division of Playboy Enterprises, which includes the Playboy Foundation as well as government relations activities and community relations programs involving Playboy's employees. The goal of the Public Affairs Division is to reflect in its support of issues, organizations and public policy, the company's commitment, often expressed within the pages of PLAYBOY magazine, to a safer, happier society that respects and protects individual rights and liberties as called for in the Bill of Rights.

In line with this goal, Playboy provided support for the growing concern about and opposition to nuclear war and the arms race. Playboy Chairman Hugh Hefner hosted a benefit at Playboy Mansion West to focus attention on a nationally important article by Robert Scheer, published in the December issue of PLAYBOY, which raised grave concerns and revealed important information about U.S. nuclear arms policies. The event, at which Paul Newman spoke, also raised funds to support Proposition 12 on the California ballot, which called for an immediate bilateral verifiable nuclear freeze.

At the Chicago mansion, the Playboy Foundation hosted fund-raisers for such organizations as the United Negro College Fund and Trial Lawyers for Public Justice.

Anti-censorship advertisement for People for the American Way appeared in PLAYBOY and many other publications. The ad also was reproduced as a poster distributed by the organization.

Anti-censorship ad receives wide attention. Playboy Enterprises, as a publishing company, has always used its resources to empower organizations and individuals working to protect First Amendment freedoms. To this end, the company created a four-color, full-page anti-censorship advertisement for People for the American Way, which appeared in the March issue of PLAYBOY. The Foundation also helped place the ad in *The Nation*, on the cover of the national *Library Journal*, on the back cover of *Mother Jones* and in *The Advocate*, *Ms.* and *The American Bookseller*.

In 1983, the Foundation printed booklets, posters, catalogs, pamphlets and flyers for over 300 organizations and provided mailing services to many others. The Foundation staff has given referrals to countless individuals and organizations, and PLAYBOY's editorial art department has provided expertise in design and media to many others.

Playboy Foundation provides grants. The Foundation grantees in fiscal year 1983 included the Southern Rural Women's Network, for organizing efforts of black rural women in the deep South; the New York University Medical Center, for their studies on the transmissibility of AIDS to heterosexuals; and Educators for Social Responsibility, for the development of a curriculum on disarmament and peace issues for the public schools. During this year, the Foundation also made its first grants to a number of voting rights groups to assist with minority registration and ultimately to improve minority representation in government.

Playboy President Christie Hefner, a Director of The Playboy Foundation, chats with American Civil Liberties Union attorney Mark Lynch (left), one of this year's Hugh M. Hefner First Amendment Award winners. The ACLU is a major Playboy Foundation grantee. Also pictured: awards judge William Worthy and awards ceremony host Jules Feiffer (right), also a contributor to PLAYBOY magazine.

First Amendment Awards granted. At the fourth annual Hugh M. Hefner First Amendment Awards ceremony in New York this year, the Foundation recognized four civil liberties champions for their vital efforts to protect and enhance our constitutional freedoms. The judges were author and radio host Studs Terkel, prominent attorney Harriet Pilpel and international journalist William Worthy.

Mark Lynch, chief counsel for the American Civil Liberties Union's National Security Project, received the outstanding national leadership award for challenging efforts by U.S. intelligence agencies to limit First Amendment freedoms. Tom and Pat Gish, co-owners of the weekly *Mountain Eagle* newspaper, merited the outstanding community leadership award for bringing Kentucky's coal industry to greater accountability through a free press. And Osmond K. Fraenkel, lawyer, author and teacher, posthumously received the award for lifetime achievement. He dedicated his life to the pursuit of civil liberties and the protection of First Amendment freedoms, and he achieved his greatest prominence in the U.S. Supreme Court for his free speech advocacy and for his participation in the Scottsboro appeals.

1983 Financial Review

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Selected Financial Data

for the years ended June 30

(in thousands except per share amounts)	1983	1982	1981	1980	1979
Net sales and revenues from continuing operations	$193,672	$210,093	$221,512	$228,133	$196,097
Income (loss) from continuing operations	(12,187)	(16,190)	(14,273)	1,141	(3,785)
Total assets	138,191	175,182	248,813	224,440	219,931
Long-term financing obligations	152	349	15,607	15,940	17,812
Per common share:					
Income (loss) from continuing operations	(1.23)	(1.64)	(1.45)	.11	(.37)
Cash dividends declared	—	.12	.12	.12	.12

Interim Information

for each of the four quarters and the years ended June 30 (in thousands except per share amounts)

	Quarter Ended				Year
1983	Sept. 30	Dec. 31	Mar. 31	June 30	
Net sales and revenues from continuing operations	$ 49,003	$ 53,493	$ 44,435	$ 46,741	$193,672
Costs and expenses	(52,396)	(54,989)	(49,175)	(51,859)	(208,419)
Loss from continuing operations	(2,287)	(853)	(3,944)	(5,103)	(12,187)
Net loss	(2,431)	(3,438)	(5,467)	(6,157)	(17,493)
Loss from continuing operations per common share	(.23)	(.09)	(.40)	(.51)	(1.23)
Net loss per common share	(.25)	(.35)	(.55)	(.62)	(1.77)
1982					
Net sales and revenues from continuing operations	$ 50,507	$ 58,490	$ 48,462	$ 52,634	$210,093
Costs and expenses	(50,607)	(58,747)	(53,916)	(65,038)	(228,308)
Loss from continuing operations	(1,333)	(920)	(5,126)	(8,811)	(16,190)
Net income (loss)	5,549	(13,245)	(22,636)	(21,349)	(51,681)
Loss from continuing operations per common share	(.14)	(.09)	(.52)	(.89)	(1.64)
Net income (loss) per common share	.56	(1.34)	(2.29)	(2.16)	(5.23)

During the fourth quarter of fiscal 1983, management determined that the company's pay cable operations would not be organized as a joint venture as initially intended (see Note M of Notes to Consolidated Financial Statements). Consequently, operating results for the first three quarters of fiscal 1983 have been restated to reflect the consolidation of 100% of the results of the company's pay cable operations. In amounts previously reported for these quarters, the cable operations were accounted for under the equity method and, as such, the results included only 50% of the losses from the cable operations. The increases to the amounts previously reported, as a result of this change, are as follows:

	Quarter Ended		
	Sept. 30	Dec. 31	Mar. 31
Net sales and revenues from continuing operations	$1,772,000	$2,246,000	$2,931,000
Loss from continuing operations	(48,000)	(126,000)	(649,000)
Loss from continuing operations per common share	(.01)	(.01)	(.07)

During the fourth quarter of fiscal 1983, the company revised its estimate of the future revenues associated with its cable program inventory and, as a result, adjusted the amortization and book value of this inventory by $5,112,000. The company also reduced the carrying value of specific programs by $2,158,000 to reflect their net realizable value. The net effect was to decrease the loss from continuing operations by $2,954,000.

During the fourth quarter of fiscal 1983, the company provided a reserve of $750,000 against long-term receivables.

Loss from continuing operations for the third quarter of fiscal 1983 reflects a $1,001,000 gain on the sale of an undeveloped parcel of land. (See Note J of Notes to Consolidated Financial Statements.)

Net losses for the first through fourth quarters of fiscal 1983 and the last three quarters of fiscal 1982 reflect estimates of the net loss on disposal of discontinued operations of $144,000, $2,585,000, $1,523,000, $1,054,000, and $6,611,000, $304,000 and $7,570,000, respectively. (See Note B of Notes to Consolidated Financial Statements.)

Losses from continuing operations for the second, third and fourth quarters of fiscal 1982 include charges of $650,000, $1,050,000 and $7,800,000, respectively, relating primarily to severance pay, write-offs of magazine inventory and club franchise notes and accounts receivable.

Loss from continuing operations for the fourth quarter of fiscal 1982 reflects a $5,388,000 gain on the sale of the New York club property. (See Note J of Notes to Consolidated Financial Statements.)

Financial Information Relating to Industry Segments

for the years ended June 30

(in thousands)	1983	1982	1981
Sales to Nonaffiliates (1)			
Publishing			
PLAYBOY magazine	$122,008	$139,744	$136,604
Other	28,182	25,591	36,375
Subtotal	150,190	165,335	172,979
Clubs	19,801	25,252	27,057
Video	12,383	584	4,608
Products	6,479	7,109	5,722
Other businesses	4,819	11,813	11,146
	$193,672	$210,093	$221,512
Income (Loss) from Continuing Operations Before Income Taxes			
Publishing (3)	$ 6,488	$ 11,923	$ 12,045
Clubs (2) (4)	(2,533)	(2,794)	(2,988)
Video	(2,269)	(4,372)	(5,326)
Products	2,911	3,292	3,017
Other businesses	(1,135)	(2,511)	(1,371)
Corporate administration and promotion	(18,209)	(23,753)	(20,913)
Interest, net	3,570	(3)	(1,928)
Other, net	(47)	3,741	2,573
	$ (11,224)	$ (14,477)	$ (14,891)
Identifiable Assets			
Publishing	$ 32,256	$ 40,140	$ 44,781
Clubs	6,079	12,999	16,332
Video	17,552	4,186	2,255
Products	2,244	2,938	2,016
Other businesses	623	2,538	13,197
Corporate administration and promotion	45,796	77,700	35,625
Total assets of continuing operations	104,550	140,501	114,206
Net assets of discontinued operations	33,641	34,681	134,607
Total assets	$138,191	$175,182	$248,813
Depreciation and Amortization of Property, Plant and Equipment			
Publishing	$ 557	$ 505	$ 403
Clubs	757	1,003	1,046
Video	290	99	122
Products	39	40	41
Other businesses	105	219	213
Corporate administration and promotion	1,028	1,299	1,072
Total from continuing operations	$ 2,776	$ 3,165	$ 2,897
Capital Expenditures			
Publishing	$ 1,047	$ 523	$ 1,012
Clubs	491	418	2,014
Video	90	65	719
Products	14	56	147
Other businesses	5	114	360
Corporate administration and promotion	345	969	2,300
Total from continuing operations	$ 1,992	$ 2,145	$ 6,552

The accompanying notes are an integral part of these tables.

Notes to Financial Information Relating to Industry Segments

(1) Sales to nonaffiliates include export sales of $21,367,000, $24,349,000 and $24,807,000 during fiscal 1983, 1982 and 1981, respectively.

(2) During fiscal 1983, the company's club segment provided $400,000 for certain costs, principally severance, associated with the relocation of its New York club facility, which will take place during fiscal 1984.

(3) During fiscal 1982, the company's publishing segment wrote off $3,500,000 of certain inventory items.

(4) During fiscal 1982, the company's club segment wrote off approximately $1,500,000 of receivables due from two of its franchisees.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The company reported a net loss of $17,500,000 for fiscal 1983, which represents an improvement of $34,200,000 from the $51,700,000 loss reported for fiscal 1982. The after tax loss from continuing operations for fiscal 1983 of $12,200,000 was reduced by $4,000,000 from the $16,200,000 loss reported in fiscal 1982, and the loss from discontinued operations of $5,300,000 was $30,200,000 lower than the loss reported in fiscal 1982 for these operations.

Fiscal 1982, a key transitional year for the company, saw the company withdraw from one of its primary business segments, casino gaming, as a result of two adverse regulatory decisions. In addition, management decided to discontinue the resort hotel and book publishing businesses as it believed these operations would not return a satisfactory profit in the near term. The loss associated with these discontinued operations in fiscal 1982 was $35,500,000. In fiscal 1983, the company reported an additional $5,300,000 loss from discontinued operations principally as a result of the significant decline in the performance of the company's leased Bahamian casino and from a renegotiation of the original sale terms for the company's resort hotels.

Fiscal 1983 results for all of the company's continuing operations were most influenced by two factors: on the positive side costs were reduced by the restructuring programs started last year after the loss of the company's most profitable business segment, casino gaming; on the negative side the deep recession, which affected not only the United States economy but also most of the rest of the world's, significantly depressed sales.

Net sales and revenues from continuing operations of $193,700,000 declined by $16,400,000 or 7.8% from fiscal 1982 levels which were down from fiscal 1981 by approximately 5.2%. While a portion of the declines registered over the past two years is the result of the company's successful elimination of unprofitable businesses, the poor economic conditions here in the United States and abroad and sluggish consumer demand have also played a major role in these declines, particularly in fiscal 1983.

The pre-tax loss from continuing operations of $11,200,000 in fiscal 1983 was $3,300,000 better than fiscal 1982 which was $400,000 better than fiscal 1981. The impact of the restructuring program started by management in fiscal 1982 is most apparent at the pre-tax line where, in spite of declines in revenue, the company's operating loss in fiscal 1983 was significantly reduced. This has been accomplished not only through the elimination of unprofitable businesses but more importantly through implementation of company-wide cost reduction programs. Another major factor in reducing pre-tax losses was the redirection of the company's video segment away from network television development toward pay television programming. The video segment reported a loss that was $2,100,000 lower than the loss reported in fiscal 1982 and $3,000,000 lower than the loss reported in fiscal 1981. The highlight of the Video Division was the formal launch of The Playboy Channel in November 1982, as well as cassette and pay television activities which are discussed in greater detail in the video segment.

Publishing: Fiscal 1983 publishing segment revenues declined by $15,100,000 or 9.2% from their fiscal 1982 level. Revenues for PLAYBOY magazine, the dominant operation in this segment, fell $17,700,000 or 12.7% from last year. The primary factors behind the revenue decline for PLAYBOY magazine were lower newsstand volume and advertising page sales. PLAYBOY's circulation and advertising performance reflects the two-fold revenue squeeze often felt by a major consumer publication like PLAYBOY when consumer spending softens. The direct impact of the decline in consumer discretionary income is felt on the newsstand as consumers redistribute their disposable income. The impact is then felt again as our advertisers, who have also experienced the decline in consumer demand, attempt to maintain profits by reducing their discretionary expenditures. Advertising is one of the expenditures that is frequently reduced. During fiscal 1983, PLAYBOY's circulation and advertising revenues were down by $4,900,000 and $13,000,000, respectively, on volume declines of 6,895,000 copies or 11.7% and 281 pages or 21.2%. A cover price increase of $.50 implemented with the October 1982 issue partially offset the impact of the volume decline. PLAYBOY's rate base will be 4.1 million (effective with the October 1983 issue) of which 2.2 million are subscriptions. PLAYBOY's combined circulation and advertising revenues put it in the top ten consumer magazines. GAMES, our other consumer magazine, went from a bimonthly to a monthly publishing mode in September 1982, and had revenue increases of $5,100,000.

The publishing segment's fiscal 1983 earnings before income taxes decreased by $5,400,000 from fiscal 1982. PLAYBOY magazine's pre-tax earnings fell by $8,700,000 excluding the effect of write-downs totaling $3,500,000 of certain inventories recorded in fiscal 1982. The primary factor contributing to the earnings decline for PLAYBOY was the revenue decline discussed previously; however, the impact of this decline was partially offset by a $7,900,000 reduction in manufacturing costs. A reduction in the print run of 3.0% and the average book size of 10.3% were principal factors contributing to this cost reduction.

The fiscal 1982 publishing segment's revenues increased $5,300,000 over their fiscal 1981 level as recalculated without the $12,900,000 fiscal 1981 revenues of OUI magazine, which the company sold in fiscal 1981. Revenues for PLAYBOY magazine increased approximately $3,100,000 basically due to advertising price increases. PLAYBOY magazine's circulation revenue, both newsstand and subscription, was stable on total unit sales which were below 1981 by approximately 2.9%.

While fiscal 1982 publishing segment earnings before income taxes fell $120,000 or 1.0% from fiscal 1981, fiscal 1982 earnings included $3,500,000 of inventory write-downs recorded during the year.

Video: The company has completely refocused and restructured its video segment. During fiscal 1982, the company began this process which focused on the development and production of programming for pay television as its principal activity. The programming is developed primarily for the company's own pay cable television service, The Playboy Channel, which was launched officially in November 1982 with 300,000 subscribers. Subscriber levels have increased each month, and by June 1983, the Channel had 500,000 subscribing households. Subscription revenues from the Channel for fiscal 1983 amounted to approximately $8,300,000. In addition to its use on The Playboy Channel, the programming developed by the video segment has been offered to the public through a variety of licensing arrangements in the form of videocassettes and discs, over-the-air subscription television, and foreign and domestic syndication. Revenues from these sources during fiscal 1983 were approximately $3,500,000.

Revenues and losses recognized during fiscal 1982 and 1981 were derived essentially from the network television programming efforts of the company. While the company will continue to attempt to exploit this market with the programming material currently being created, this market has been relegated to a

position of secondary importance in favor of the pay television market.

Clubs: As in the case of PLAYBOY magazine, the weak economy has had a significant impact on the Playboy Clubs as well as on most other companies in the restaurant industry. The fiscal 1983 club segment's revenues decreased $5,500,000 (21.6%) from their fiscal 1982 level. The primary factor behind this revenue decline is lower unit volume. Revenues for company-owned clubs were down $2,500,000 from fiscal 1982 on a volume (door count) decrease of 21.9%. Key sales revenues for the same period were down $2,600,000 on a volume decrease of 23.1%.

The fiscal 1983 club segment's loss before income taxes increased $1,300,000 (as recalculated without a $1,500,000 write-off of notes and accounts receivable from two of the club franchises recorded during fiscal 1982). This increase in the club segment's losses was primarily due to lower revenues partially mitigated by lower operating costs. Over the past two years the company has made a special effort to reduce operating expenses. Various cost reduction programs were implemented this year, including staff reductions and reductions in discretionary promotional expenses and controllable operating expenses.

The fiscal 1982 club segment's revenues decreased $1,800,000 (6.7%) from their fiscal 1981 level. Key sales, however, remained stable over fiscal 1981.

The fiscal 1982 loss before income taxes of $2,800,000 included a $1,500,000 write-off of notes and accounts receivables necessitated by financial difficulties encountered by two of the club franchises. Excluding this item, the $1,700,000 improvement over fiscal 1981 was due to cost reduction programs, particularly in the overhead areas, implemented at the beginning of fiscal 1982.

Products: Fiscal 1983 revenues declined $630,000 or 8.9% while earnings before income taxes decreased $381,000 or 11.6%. The decrease in fiscal 1983 revenues and earnings was attributable to lower volume primarily in the wholesale operations. The principal contributing factor was the weak domestic economy and sluggish consumer demand.

Revenues and earnings for fiscal 1982 increased $1,400,000 or 24.2% and $275,000 or 9.1%, respectively, over fiscal 1981 levels. The revenue and earnings growth resulted principally from the addition of new products and product lines and upgrading the quality of existing products. Additionally, two other factors contributed to the rapid growth. The first was a refocusing away from marketing novelty and promotional items toward branded consumer products, and the second was a decision to become more aggressive in the defense and re-acquisition of the company's trademarks.

Corporate Administration and Promotion: Corporate administration and promotion expenses were reduced by $5,000,000 (23.3%) from their fiscal 1982 level. Reductions took place in employee-related costs and promotional expenses and reflected the results of steps taken in fiscal 1982 to restructure and streamline corporate staff functions.

Interest, Net: Over the past three years interest income (net of interest expense) has increased from a net expense in fiscal 1981 of $1,900,000 to net income of $3,600,000 in fiscal 1983. This increase essentially reflects the improvement in the company's liquidity position as a result of the sale of the company's U.K. gaming and U.S. resort hotel businesses. A portion of the proceeds from these sales was used to retire outstanding debt totaling $28,000,000, which placed the company in a virtually debt-free position by the end of fiscal 1982. The balance of the proceeds is invested in money market instruments.

Liquidity/Capital Resources

As previously discussed in the results of operations, the restructuring program launched in fiscal 1982 was vigorously continued in fiscal 1983. In addition to those steps taken during fiscal 1982, these efforts have been focused during fiscal 1983 toward the further elimination of cash-consuming operations with a low probability of future success and converting nonproductive assets into cash. This resulted in the sale of the company's limousine operation and an undeveloped parcel of land near Marbella, Spain. Along with these steps, management has continued its efforts to improve cash flow and profits through staff reductions, improved control over major cost areas and improved working capital management. The process of reinvesting in the future also began in fiscal 1983 with the redirection of the company's efforts in the video segment and the formal launch of The Playboy Channel.

The success of the company's ongoing restructuring efforts was demonstrated by the significant reduction in administrative overhead and noncash operating resources excluding the investment in the video segment. However, in spite of these efforts, cash flow from continuing operations was negative.

The net cash investment to establish the Channel and related pay television efforts amounted to approximately $12,900,000 of which approximately $10,300,000 represents unamortized programming inventory which will be utilized on the Channel as well as in other markets (videocassette and disc, over-the-air pay television, and foreign and domestic syndication).

In addition to the cash used to fund these new efforts of the video segment, a major portion of the cash used by continuing operations represented a nonrecurring income tax payment of $6,000,000, and $1,500,000 in payments made in connection with staff reductions made in fiscal 1982 and 1983. The income tax payments were attributable to additional federal income taxes, including interest, assessed for fiscal years 1970 through 1976 and state and federal income taxes related to the sale of the company's New York club property. Excluding the video operations, and nonrecurring transactions, continuing operations used approximately $3,900,000 in cash.

Discontinued operations generated approximately $11,900,000 in cash during fiscal 1983. Included in this amount was the collection of approximately $8,400,000 as a result of the renegotiation of the resort hotel sale and net cash proceeds from the gaming business, principally the collection of the balance of the escrow accounts, and the book publishing business. However, discontinued operations will require net payments during fiscal 1984 applicable to expected U.K. gaming income tax and severance liabilities as well as payment of liabilities, net of asset liquidations, applicable to the book publishing and Bahamian casino operations.

Management continues to believe it has made significant progress toward achieving a positive cash flow in future years. Management believes that the results it has achieved to date coupled with the expected growth in the businesses it has chosen to emphasize will eventually result in a positive cash flow performance, allowing the company to continue to enjoy a net investment position. The cash proceeds resulting from sales of any additional assets, currently being contemplated by management, would enhance the company's net investment position.

Consolidated Balance Sheets

as of June 30

(in thousands)	1983	1982*
Assets		
Cash	$ 2,867	$ 3,110
Short-term investments (Note A)	23,713	32,902
Receivables (Note D)	14,594	16,313
Inventories (Notes A and E)	12,702	17,514
Film production costs (Notes A and F)	7,567	812
Net current assets of gaming, resort hotel and book publishing businesses (Note B)	—	1,607
Cash in escrow and receivables from sale of discontinued businesses (Note B)	2,077	12,100
Other current assets	4,474	6,441
Total current assets	67,994	90,799
Property, plant and equipment (Note A):		
Land	2,174	2,154
Buildings and improvements	12,940	12,816
Furniture and equipment	16,284	16,398
Leasehold improvements	11,367	10,326
Capitalized leases (Note K)	461	738
	43,226	42,432
Less accumulated depreciation and amortization	(24,314)	(22,164)
	18,912	20,268
Deferred subscription acquisition costs (Note A)	7,252	9,332
Film production costs—noncurrent (Notes A and F)	4,038	374
Net noncurrent assets of gaming and book publishing businesses (Notes B and C)	33,641	33,074
Note receivable (Note B)	—	10,000
Other assets	6,354	11,335
	$138,191	$175,182
Liabilities		
Current financing obligations (Note G)	$ 647	$ 415
Accounts payable	17,894	20,274
Accrued employee costs	4,752	4,484
Dividends payable	—	593
Accrued liabilities of and reserves for losses on disposal of discontinued businesses (Note B)	5,340	11,148
Income taxes payable (Note H)	8,196	12,866
Other accrued liabilities	5,405	9,473
Total current liabilities	42,234	59,253
Long-term financing obligations (Note G)	152	349
Deferred revenue (Note A)	36,730	36,903
Other noncurrent liabilities	4,505	6,700
Commitments and contingencies (Notes B, C, F, H, L and M)		
Shareholders' Equity		
Common stock, $1 par value, 15,000,000 shares authorized, 10,099,509 and 10,087,509 issued at June 30, 1983 and 1982, respectively (Note I)	10,100	10,088
Capital in excess of par value	14,854	14,780
Retained earnings	31,020	48,513
	55,974	73,381
Less cost of 201,803 and 201,801 shares in treasury at June 30, 1983 and 1982, respectively	(1,404)	(1,404)
	54,570	71,977
	$138,191	$175,182

*Certain reclassifications have been made to conform to the 1983 presentation.
The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Operations
for the years ended June 30

(in thousands, except per share amounts)	1983	1982	1981
Net sales and revenues from continuing operations	$193,672	$210,093	$221,512
Costs and expenses:			
Cost of sales and operating expenses	(179,867)	(194,561)	(198,900)
Selling and administrative expenses	(28,552)	(33,747)	(38,148)
	(208,419)	(228,308)	(237,048)
Interest income	4,313	3,989	3,885
Interest expense	(743)	(3,992)	(5,813)
Other, net (Note J)	(47)	3,741	2,573
Loss from continuing operations before income taxes (Note M)	(11,224)	(14,477)	(14,891)
Income tax (expense) benefits (Note H)	(963)	(1,713)	618
Loss from continuing operations	(12,187)	(16,190)	(14,273)
Discontinued operations (Notes B, C and H):			
Income (loss) from operations	–	(21,006)	27,968
Loss on disposal	(5,306)	(14,485)	–
Income (loss) from discontinued operations	(5,306)	(35,491)	27,968
Net income (loss)	$ (17,493)	$ (51,681)	$ 13,695
Loss from continuing operations per common and common equivalent share (Note A)	$ (1.23)	$ (1.64)	$ (1.45)
Net income (loss) per common and common equivalent share (Note A)	$ (1.77)	$ (5.23)	$ 1.39
Dividends per share	$ –	$ .12	$ .12

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Changes in Shareholders' Equity
for the years ended June 30, 1983, 1982 and 1981

(in thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock
Balance at June 30, 1980	$ 9,602	$ 13,042	$ 88,845	$ (1,305)
Net income	–	–	13,695	–
Dividends paid ($.12 per share)	–	–	(1,161)	–
Exercise of stock options	462	1,574	–	(98)
Balance at June 30, 1981	10,064	14,616	101,379	(1,403)
Net loss	–	–	(51,681)	–
Dividends paid ($.06 per share)	–	–	(592)	–
Dividends payable ($.06 per share)	–	–	(593)	–
Exercise of stock options	24	164	–	(1)
Balance at June 30, 1982	10,088	14,780	48,513	(1,404)
Net loss	–	–	(17,493)	–
Exercise of stock options	12	74	–	–
Balance at June 30, 1983	$ 10,100	$ 14,854	$ 31,020	$ (1,404)

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Changes in Financial Position

for the years ended June 30

(in thousands)	1983	1982*	1981*
Cash Flow from Continuing Operations			
Loss from continuing operations	$ (12,187)	$ (16,190)	$ (14,273)
Add (deduct) items not affecting cash:			
Depreciation of property, plant and equipment	2,776	3,165	2,897
Amortization and market value adjustment of film production costs	8,930	359	5,318
Gain on sale of New York club property	—	(5,388)	—
Gain on sale of land in Spain	(1,001)	—	—
Foreign exchange on current financing obligations	—	—	(2,640)
(Increase) decrease in accounts receivable	1,719	3,677	(3,084)
(Increase) decrease in inventories	4,812	2,281	(495)
(Increase) decrease in other current assets	1,967	(1,604)	(1,684)
Increase (decrease) in accounts payable	(2,380)	3,971	(1,928)
Increase (decrease) in accrued employee costs and other liabilities	(3,800)	3,854	(2,716)
Increase (decrease) in income taxes payable	(3,826)	4,650	3,577
Increase (decrease) in noncurrent and deferred income taxes	(1,713)	(441)	5,650
Increase (decrease) in deferred income, net of deferred subscription acquisition costs	1,425	(2,038)	(1,130)
Additions to film production costs	(19,349)	(825)	(5,111)
Other	768	197	(556)
Cash used by operations of continuing businesses	(21,859)	(4,332)	(16,175)
Other sources (uses) of cash:			
Additions to property, plant and equipment	(1,992)	(2,145)	(6,552)
Sale of land in Spain	2,284	—	—
Sale of property, plant and equipment	521	8,791	914
Payment of cash dividends	(593)	(592)	(1,161)
Issuance of stock	86	187	1,938
Other, net	222	(762)	(2,174)
Other sources (uses) of cash	528	5,479	(7,035)
Cash provided by (used for) continuing operations before financing activities	(21,331)	1,147	(23,210)
Cash Flow from Discontinued Operations			
Income (loss) from discontinued operations	(5,306)	(35,491)	27,968
Adjustments	2,434	49,344	(21,669)
Cash provided by (used for) operations of discontinued businesses	(2,872)	13,853	6,299
Net proceeds from sale of discontinued businesses	15,351	46,716	—
Investment in Atlantic City Venture	(615)	(12,693)	(12,840)
Other, net	—	(394)	(3,698)
Cash provided by (used for) discontinued operations	11,864	47,482	(10,239)
Financing			
Additional financing obligations	455	—	16,374
Retirement of financing obligations	(420)	(27,834)	(15,127)
Cash provided by (used for) financing	35	(27,834)	1,247
Increase (decrease) in cash and short-term investments	$ (9,432)	$ 20,795	$ (32,202)

*Certain reclassifications have been made to conform to the 1983 presentation.
The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Financial Statements

(For the three years ended June 30, 1983)

(A) Summary of Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of the company and all subsidiaries. The net current and noncurrent assets, liabilities, results of operations and loss on disposal related to the discontinued gaming, resort hotel and book publishing businesses are presented separately in the financial statements (see Note B).

Revenue Recognition: Revenues from the sale of magazine subscriptions and cable television subscriptions (net of distribution fees) are recognized over the term of the subscriptions. Sales of magazines are recorded when each issue goes "on sale" and are reduced by an estimated provision for returns. Revenues from the sale or renewal of Playboy Club Keys, net of a provision for uncollectible amounts, are recognized as of the effective date of the keyholder period. Revenues from pay television and videocassette license agreements are recognized when the films are contractually available to the licensee and certain other conditions are met.

Short-Term Investments: Short-term investments, consisting primarily of cash invested in money market instruments, are stated at cost plus accrued interest, which approximates market value.

Inventories: Inventories are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment: Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the related leases. Repair and maintenance costs are expensed as incurred and major renewals and betterments are capitalized.

Deferred Subscription Acquisition Costs: Costs associated with the promotion of magazine subscriptions are amortized over the term of related subscriptions.

Film Production Costs and Amortization: Film production and acquisition costs are capitalized as incurred and are currently amortized to cost of sales primarily on the straight-line method over two years. Management believes that this method provides a reasonable matching of expense with total estimated revenues over the periods that revenues associated with films are recognized. Film amortization is adjusted periodically to reflect changes in the estimate of timing and amounts of related future revenues. Film costs are stated at the lower of unamortized cost or estimated net realizable value as determined on a film-by-film basis.

Investment Tax Credit: The investment tax credit is recognized on the flow-through method as a reduction of the provision for income taxes in the year available for use subject to statutory limitations.

Earnings per Share: For the year ended June 30, 1981, net earnings per common and common equivalent share were computed on the basis of the weighted average number of common and common equivalent shares outstanding during each period. Common equivalent shares relate to shares issuable under the company's stock option plans and warrants. A fully diluted per share amount is not presented inasmuch as the difference between such per share amount and the per share amount presented is insignificant. For the years ended June 30, 1983 and 1982, common equivalent shares have not been included in the computation as the effect of such inclusion would be to decrease the loss per share.

Statement of Changes in Financial Position: In fiscal 1983, the company changed its presentation of the Statement of Changes in Financial Position from an analysis of the change in working capital to an analysis of the change in cash and short-term investments in order to more clearly reflect cash flow. The 1982 and 1981 statements have been reclassified to conform to this presentation.

(B) Discontinued Operations

During fiscal 1982, the company discontinued its resort hotel, book publishing and gaming operations.

Fiscal 1982 and 1981 results of operations of the discontinued businesses have been segregated from the results of continuing operations in the Consolidated Statements of Operations. The results of operations of the discontinued segments included under "Income (loss) from operations" in the Consolidated Statements of Operations are as follows (in thousands):

	1982	1981
Resort hotels (including income tax benefits of $265 and $1,863, respectively)	$ 569	$ (690)
Book publishing	(6,045)	(873)
Gaming (including income tax expense of $4,256 and $13,581, respectively)	(15,530)	29,531
Total	$ (21,006)	$ 27,968

The loss on disposal included in the 1983 and 1982 results of operations is as follows (in thousands):

	1983	1982
Resort hotels (including income tax benefits of $439 in 1982)	$ (2,108)	$ (3,521)
Book publishing	500	(7,456)
Gaming (including income tax expense of $414 and $3,698, respectively)	(3,698)	(3,508)
Total	$ (5,306)	$ (14,485)

Resort Hotels: On March 24, 1982, pursuant to a plan of disposal adopted in November of 1981, the company sold the Lake Geneva (Wisconsin) and Great Gorge (New Jersey) resort properties for $42,000,000. The company received $32,000,000 in cash and a $10,000,000 promissory note.

During fiscal 1983, the company renegotiated the original terms of the sale agreement for the resort hotel properties. The renegotiated terms included a reduction of the promissory note in the amount of $1,369,000. The company received the remaining balance of the promissory note of $8,631,000 during fiscal 1983. The company also recorded an additional provision of $739,000 to reflect other aspects of the renegotiated agreement and to adjust estimates of certain liabilities associated with these operations.

Net revenues of the resort hotels were $18,444,000 and $33,069,000 in fiscal 1982 (through December 1981) and 1981, respectively. The fiscal 1982 loss on disposal summarized above includes an operating loss during the phase out period (January-March 1982) of $647,000.

Notes to Consolidated Financial Statements (continued)

Book Publishing: On July 1, 1982, the company completed the sale of its book publishing operations for $3,437,000. The purchase price will be received in various installments through January 31, 1984. The company's book club business was phased out during fiscal 1983.

The $7,456,000 loss on disposal in fiscal 1982 includes a provision to state certain assets at net realizable value, costs incident to the sale and $450,000 of estimated operating losses to be incurred during the phase out period (July–September 1982).

During fiscal 1983, the estimated loss on disposal was reduced by $500,000 primarily as a result of a reevaluation of the realizable value of certain assets and liabilities related to the book publishing business.

The book publishing operations reported net revenues of $16,918,000 and $21,920,000 in fiscal 1982 and 1981, respectively. In fiscal 1981, $2,116,000 of previously established allowances for returned books was restored to income.

Gaming: The company's discontinued operations in the gaming industry consist of its United Kingdom gaming businesses (casinos, betting shops and bingo parlors), its Bahamian casino and its interest in the Atlantic City casino. In December of 1981, the company agreed to sell its United Kingdom operations as described below. The company withdrew from operating the Bahamian casino during August 1983. As detailed in Note C, the company had to withdraw from operating the Atlantic City casino pursuant to a decision by the New Jersey Casino Control Commission.

The sale of the company's United Kingdom operations was completed on January 8, 1982, for $24,800,000 plus cash dividends paid prior to the sale and other closing adjustments. Of the sale price, $6,461,000 was placed in a general escrow account to cover any liabilities that were unforeseen at the time of sale. An additional $1,661,000 of the sale price was placed in separate escrow accounts pending the resolution of certain contingent tax, severance and termination liabilities. During fiscal 1983, the company received approximately $6,100,000, including interest, from these escrow accounts. The remaining balance in the escrow accounts, after satisfaction of certain liabilities, is $259,000, including interest, at June 30, 1983.

The company also indemnified the purchaser against certain other contingent liabilities which are not limited to the amounts placed in escrow but are limited by the sales agreement to the total of the initially announced sale price. Management does not believe that any significant liabilities will result from this indemnification. The computation of the gain on the sale before taxes and the related tax provisions was made after providing for payments made or accrued for the company's indemnities under the sales agreement. (Also see Note H for a description of the tax provision.)

The escrow accounts and liabilities discussed previously were partially denominated in sterling, and related foreign exchange gains are recorded as part of the loss from discontinued operations. Such foreign exchange gains amounted to $128,000 and $366,000 during fiscal 1983 and 1982, respectively.

The fiscal 1983 loss on disposal of the gaming segment mainly reflects a revised estimate of the net loss related to the company's Bahamian gaming business. As a result of the deteriorating performance of this casino during fiscal 1983, the company increased its previous estimate of losses through the anticipated date of disposal by approximately $3,774,000.

Net sales and revenues of $44,562,000 and $112,369,000 were generated by the gaming segment in fiscal 1982 (through the date of disposal) and 1981, respectively.

(C) Atlantic City Project

Playboy of New Jersey, Inc. ("PNJ") is a wholly owned subsidiary of the company, formed to hold the company's interest in a Venture to construct, own and operate a 500-room hotel/casino on the Boardwalk in Atlantic City. The Venture is a general partnership known as Playboy-Elsinore Associates ("PEA"). PNJ, through an intermediate entity, holds a 45.7 percent interest in the hotel/casino. The other principal partner in the Venture, who also holds a 45.7 percent interest, is Elsub Corporation, which is a wholly owned subsidiary of Elsinore Corporation ("Elsinore"). The hotel/casino opened to the public on April 13, 1981, after receiving its temporary operating license.

In a decision rendered on April 7, 1982, three of five Commissioners of the New Jersey Casino Control Commission ("CCC") found that Hugh M. Hefner, the company's Chief Executive Officer, was qualified for licensure and two found that he was not. Since four positive votes are required for licensure, conditions requiring Mr. Hefner's ultimate separation from PEA became a condition of PEA's receiving a permanent casino license. All five Commissioners ruled that all other Playboy individuals required to be qualified were licensable.

On April 13, 1982, PEA was granted a permanent license to operate the hotel/casino by the CCC subject to certain conditions and agreements executed on such date, which are summarized below:

1. Mr. Hefner and the company are to be separated from the licensed entities pursuant to a plan of divestiture subsequently presented to the CCC. On May 24, 1982, prior to submission of the plan, the company filed an appeal to the decision by the CCC. On August 31, 1983, the appeal was decided against the company. A further appeal will be made by the company to the New Jersey Supreme Court. The period between April 13, 1982, and the consummation of the plan or possible success on appeal is referred to herein as "the Interim Period."
2. The company may not participate in the management of the Venture and the CCC required that all influence by the company over the operations of the Venture be discontinued, leaving the effective control of the Venture in the hands of Elsinore unless and until the company either divests or succeeds in an appeal from the CCC's decision.
3. All of the company's stock in PNJ has been signed over to a nonaffiliated Escrow Agent (who functions as a voting trustee).
4. The company maintains control of its trademarks used by the Venture through a trademark license agreement.
5. During the Interim Period no money may move between PNJ and the company except for certain tax payments. Escrows were established to cover certain fees and disbursements and funding requirements of the Venture under the control of the Escrow Agent.
6. During the Interim Period the company will receive no direct economic benefit from any return on its capital investment in the Venture. The company's equity in the Venture's earnings must remain in the Venture until it is divested. The company is not prohibited from realizing economic benefits in the form of the price paid it upon a divestiture.

Notes to Consolidated Financial Statements (continued)

The company does not believe it will be compelled to implement any plan of divestiture until appellate processes are exhausted. In the meantime, the company will consider any divestiture opportunity from a third party on its economic merits, subject to the company's obligation in certain circumstances to offer Elsinore a right of first refusal. If the CCC ultimately revokes PEA's license and if the revocation is not stayed by an appropriate court, then, under existing agreements, the company's interest would be sold to Elsinore. The sale would be governed by the compulsory buyout provisions of the General Partnership Agreement and would be made at the lower of cost (as defined in such agreement) or appraised value.

If Elsinore were to purchase the company's interest under the compulsory buyout provisions, and if the company were later determined to be eligible for licensing in New Jersey within three years after such purchase, the company would have the right to repurchase its interest from Elsinore on terms that would substantially restore it to the position it would have had if it had not been declared ineligible.

The company previously accounted for its investment in PEA under the equity method of accounting. As a result of the loss of control over its operations as discussed above, effective in April 1982, the company began accounting for its investment in PEA under the cost method and has not recorded its equity in PEA's operating results from that date.

The company's investment in PEA at June 30 comprises the following (in thousands):

	1983	1982
Partner's equity account	$ 10	$ 10
Loans and related interest	42,460	38,960
Funds advanced to escrow account	500	4,000
Capitalization of other company costs	711	128
Equity in undistributed loss	(10,040)	(10,040)
	$ 33,641	$ 33,058

During fiscal 1982, the company recognized its share of PEA's write-off of deferred preopening costs in the amount of $7,785,000, and also expensed $7,148,000 of other costs relating to the project not chargeable to PEA since it was determined that there was no future benefit to these costs. This included costs incurred before formation of PEA which, in the negotiated partnership agreements with Elsinore, were not credited to the company, and thus not converted into partnership loans receivable from PEA. These amounts are included in loss from discontinued operations in the Consolidated Statement of Operations for 1982. No further loss is anticipated upon ultimate disposition of the company's interest in PEA.

At June 30, 1983 and 1982, PEA's balance sheet reflects net assets (excluding intercompany loans) of $64,800,000 and $51,300,000, respectively.

The Venture was a co-defendant in several lawsuits arising out of the construction of the hotel/casino. All of these lawsuits have been resolved and an enforceable settlement has been placed upon the court record. Formal settlement documents may be executed shortly. The settlement of these lawsuits does not have a materially adverse affect on the financial position or the results of operations of the company.

(D) Receivables

Receivables are net of an allowance for doubtful balances of $2,891,000 and $3,233,000 at June 30, 1983 and 1982, respectively.

(E) Inventories

Inventories are as follows at June 30 (in thousands):

	1983	1982
Publishing Business:		
Paper	$ 7,940	$ 11,370
Editorial and other prepublication costs	3,385	4,043
	11,325	15,413
Merchandise finished goods	737	1,457
Other	640	644
	$ 12,702	$ 17,514

(F) Film Production Costs

Current film production costs consist of the following components at June 30 (in thousands):

	1983	1982
Released, less amortization	$ 7,109	$ 812
Completed, not yet released	458	–
	$ 7,567	$ 812

Noncurrent film production costs consist of films in the process of production.

During the fourth quarter of fiscal 1983, the company revised its estimate of the future revenues associated with its cable television program inventory and, as a result, adjusted the amortization, increasing the book value of this inventory by $5,112,000. The company also reduced the carrying value of specific programs by $2,158,000 to reflect their net realizable value. The net effect was to increase the carrying value of film production costs by $2,954,000.

The company's video operation has commitments to license, purchase or finance the production of films for use in its video business of approximately $6,200,000 at June 30, 1983. The company reserves the right of approval on the production of all films.

(G) Current and Long-Term Financing Obligations

Lines of credit and related short-term borrowings at June 30 consist of the following (in thousands):

	1983		1982	
	Lines of Credit	Borrowings	Lines of Credit	Borrowings
Short-Term Financing:				
Domestic bank lines of credit	$ 17,000	$ –	$ 20,000	$ –
Foreign bank line of credit	1,000	455	1,000	–
Insurance financing agreement	–	–	–	183
Current maturities of long-term debt	–	192	–	232
	$ 18,000		$ 21,000	
Current financing obligations		$ 647		$ 415

Notes to Consolidated Financial Statements (continued)

At June 30, 1983 and 1982, the domestic bank lines required compensating balances of up to five percent of the total lines and up to five percent of any outstanding borrowings and are cancelable at the banks' option. The compensating balances at June 30, 1983 and 1982, applicable to domestic bank lines were $750,000 and $900,000, respectively, and withdrawal of these bank balances is not legally restricted. Interest on all of these lines would be charged at the respective bank's prime interest rate.

The foreign bank line of credit represents an overdraft facility, which was terminated on August 26, 1983. Borrowings under this facility bore interest at approximately one and one-half percent over the U.S. prime rate. This facility was supported by a letter of credit issued by another bank.

Long-term financing consists of the following at June 30 (in thousands):

	1983	1982
Capitalized lease obligations, at interest rates of 5.9% to 26.4%, averaging 10.2%, payable monthly to November 1986	$ 232	$ 341
Other, at interest rates of 6.0% to 8.0%, averaging 6.2%, payable in various installments to November 1989	112	240
	344	581
Less current maturities	(192)	(232)
	$ 152	$ 349

(H) Income Taxes

The provision for income taxes consists of (in thousands):

	1983	1982	1981
Current:			
Federal (including tax treaty benefits)	$ —	$ (2,246)	$ —
State	127	1,591	163
Foreign	1,250	7,300	16,853
	1,377	6,645	17,016
Deferred:			
Federal (including tax treaty benefits)	—	3,127	(2,667)
State	—	(615)	(905)
Foreign	—	(194)	(2,344)
	—	2,318	(5,916)
Total tax provision	$ 1,377	$ 8,963	$ 11,100
Tax provision applicable to:			
Continuing operations	$ 963	$ 1,713	$ (618)
Discontinued operations	414	7,250	11,718
	$ 1,377	$ 8,963	$ 11,100

In 1981, the provision for income taxes gives effect to group relief provisions in the United Kingdom, which permitted the offsetting of losses of certain of the company's domestic subsidiaries against the profits of its United Kingdom operations since July 1, 1976. Any profits of these subsidiaries were also considered taxable in the United Kingdom. In 1982 and 1983, $5,530,000 and $414,000 of United Kingdom capital gains tax was provided in respect of the sale of the company's United Kingdom operations as described in Note B. The 1982 provision, however, was reduced by $1,832,000 of benefits attributable to the 1982 group relief losses of the subsidiaries described above. As a consequence of the sale of the company's United Kingdom operations, these subsidiaries applied for and received the consent of the United Kingdom tax authorities to cease residence in the United Kingdom. Such termination of residence was effected on June 30, 1982.

Income (loss) from continuing operations before provision for income taxes consists of (in thousands):

	1983	1982	1981
Domestic	$ (12,539)	$ (15,056)	$ (14,722)
Foreign	1,315	579	(169)
	$ (11,224)	$ (14,477)	$ (14,891)

The provision for income taxes applicable to continuing operations differs from a provision computed at the United States statutory rates as follows (in thousands):

	1983	1982	1981
Statutory rate tax provision	$ (5,163)	$ (6,659)	$ (6,850)
Increases (reductions) in taxes resulting from:			
Foreign income taxed at other than U.S. statutory rate	231	478	222
Tax benefit of domestic losses not recognized	5,768	6,925	6,772
State income taxes	127	582	(768)
U.S. minimum tax	—	387	—
Other, net	—	—	6
	$ 963	$ 1,713	$ (618)

Deferred income taxes are provided for the net change in timing differences between tax and financial reporting with certain limitations. Components of the provision for deferred income taxes are as follows (in thousands):

	1983	1982	1981
U.S.-U.K. tax treaty benefits	$ —	$ 3,127	$ (2,667)
U.K. capital allowances greater (less) than book depreciation	—	(1,919)	462
U.K. interest expense	—	2,074	(2,074)
U.K. royalty expense deductible in prior years	—	—	(896)
State income taxes	—	(615)	(905)
Other, net	—	(349)	164
	$ —	$ 2,318	$ (5,916)

At June 30, 1983, a tax net operating loss carryforward of $20,552,000 (expiring in 1998), foreign tax credit carryforwards of $25,290,000 and investment tax credit carryforwards of $3,338,000 are available to reduce future U.S. federal income taxes. The foreign tax credit carryforward expires in 1984 through 1988, with $5,484,000 expiring in 1986 and $18,400,000 expiring in 1987. The investment tax credit carryforward expires in 1992 through 1998, with $1,996,000 expiring in 1997. For accounting purposes, in addition to the tax carryforwards, $18,900,000 of net timing differences are available at June 30, 1983, to reduce future U.S. federal taxable income. This amount represents the net effect of timing differences which have reduced income for financial reporting purposes but will be reported in subsequent periods for tax purposes and for which the related tax benefit has not been recognized in the financial statements because of the existence of tax operating losses and foreign and investment tax credits when such timing differences arose.

The federal income tax returns for years subsequent to 1978 have not yet been examined. In the opinion of management, the effects of any assessments arising from examination of these open tax years will not be material.

Notes to Consolidated Financial Statements (continued)

(I) Stock Options

A Qualified Stock Option Plan was adopted in 1974, providing for the granting to certain employees of the company and its subsidiaries options for up to 700,000 shares of common stock. Options were granted within the first five years of the Plan for a period not to exceed five years. The Plan provided that options granted be exercisable at not less than 100 percent of fair value at the date of grant and no earlier than three months thereafter. No charges to earnings were made in connection with this Plan. The Plan, which terminates in 1984, has effectively terminated since no options are outstanding or reserved for future grant at June 30, 1983.

A Stock Option-Stock Appreciation Rights Plan was adopted in 1977 providing for the granting to key employees of the company and its subsidiaries options for up to 700,000 shares of common stock. Sixty percent of the optioned shares could be exercised in the form of stock appreciation rights (SARs) at a price of $1.00 below the fair market value of the stock at the date of the grant. Options with the SAR feature were granted within the first five years of this Plan, which permitted optionees to exercise options by surrendering shares of already owned common stock of the company in lieu of cash. Upon exercise of an SAR, the optionee was paid any excess of the fair market value of the company's stock at the date of the exercise over the option price in cash. The compensatory elements of the Plan were an $80,000 credit to earnings in fiscal 1983, a $108,000 credit to earnings in fiscal 1982, and a $290,000 charge to earnings in fiscal 1981 and included the change in value of SARs exercisable during the period and adjustments to accrued compensation for expired or canceled rights. The Plan, which terminates in 1987, has effectively terminated since no options or SARs are outstanding or reserved for future grant at June 30, 1983.

Information for the years ended June 30, 1983 and 1982, with respect to the plans, is summarized in the table below:

	Stock Options		Stock Appreciation Rights	
	Shares	Price per Share	Shares	Price per Share
Outstanding at June 30, 1981	284,000	$5.88-$18.00	148,000	$5.88-$18.00
Exercised	(23,000)	6.13- 7.32	(52,000)	5.88- 7.00
Expired or canceled	(146,000)	5.88- 13.00	(33,000)	7.00- 13.00
Outstanding at June 30, 1982	115,000	6.13- 19.00	63,000	6.50- 18.00
Exercised	(12,000)	6.13	(33,000)	6.50- 12.75
Expired or canceled	(103,000)	6.13- 19.00	(30,000)	6.50- 18.00
Outstanding at June 30, 1983	–		–	
Reserved for future grant:				
June 30, 1983	–			
June 30, 1982	410,000			
June 30, 1981	316,000			

No options were granted in 1983 or 1982.

(J) Other Items

During fiscal 1983, the company sold for $2,450,000 an undeveloped parcel of land in Spain, recognizing a gain of $1,001,000 before income taxes.

During the fourth quarter of fiscal 1983, the company provided a reserve of $750,000 against one of its long-term receivables.

In addition to the foreign exchange gains recorded as part of the loss from discontinued operations, the company recorded foreign exchange losses of $413,000 and $492,000 in fiscal 1983 and 1982, respectively. These losses result primarily from the translation of certain short-term investments and tax liabilities which are denominated in foreign currency.

During fiscal 1982, the company sold for $10,800,000 and leased back for 14 months the building which housed the New York Playboy Club. As a result of this transaction, the company recognized a gain of $5,388,000.

(K) Lease Commitments

The company's principal lease commitments are for office space, data processing equipment and Playboy Club facilities. The leases generally provide for lessee payment of utility, insurance, tax and maintenance costs. Management expects that, in the normal course of business, leases expiring will be renewed or replaced by other leases.

Rents payable under leases of certain Playboy Club facilities are based on a percentage of the revenues generated at the facility in addition to minimum base rentals.

Leased properties under capitalized leases at June 30 are (in thousands):

	1983	1982
Buildings and improvements	$ 97	$ 97
Furniture and equipment	364	641
	461	738
Less accumulated amortization	(252)	(455)
	$ 209	$ 283

Rental expense for continuing operations was as follows (in thousands):

	1983	1982	1981
Minimum rental expense	$ 6,528	$ 6,472	$ 5,898
Contingent rental expense	338	450	356
	6,866	6,922	6,254
Sublease income	(56)	(44)	(44)
Net rental expense	$ 6,810	$ 6,878	$ 6,210

Notes to Consolidated Financial Statements (continued)

The minimum commitment as of June 30, 1983, under leases that have initial or remaining noncancelable terms in excess of one year is as follows (in thousands):

Year Ending June 30	Capitalized Leases	Operating Leases
1984	$ 128	$ 3,121
1985	84	2,753
1986	33	2,412
1987	8	2,129
1988	–	2,056
Later years	–	4,407
Less minimum sublease rental income	–	(33)
Net minimum lease payments	253	$ 16,845
Less amount representing interest	(21)	
Present value of minimum lease payments	232	
Less current portion	(91)	
Long-term obligations at June 30, 1983	$ 141	

Operating leases related to discontinued operations are not included in the above schedule of minimum lease commitments since the company has provided for the cost of terminating these leases.

(L) Contingencies

On December 21, 1981, a purported class action for unspecified damages was filed in the U.S. District Court for the Northern District of Illinois, Eastern Division, on behalf of an alleged class comprised of those persons who held shares of the company on April 13, 1981, and who purchased such shares on or after August 21, 1979. Later amendments to the complaint have expanded the class to include those shareholders who purchased shares on or after October 20, 1978. The suit names as defendants the company and the following present and former directors: Derick J. Daniels, Donald W. Diehl, William A. Emerson, Christie A. Hefner, Hugh M. Hefner, Marvin L. Huston, Melvyn N. Klein, Victor A. Lownes and Richard S. Rosenzweig. The suit alleges that the defendants violated Section 10-B of the Securities Exchange Act of 1934 by fraudulently omitting in the company's public disclosures the circumstances which led to the official challenge to the company's United Kingdom gaming licenses. The company believes that it has substantial defenses to the action, and the company and its directors intend to defend it vigorously. In August 1983, the court denied plaintiff's motion for class certification. Plaintiffs are currently reviewing documentary evidence, and the company expects that discovery proceedings will continue for a number of months.

On May 18, 1982 and July 8, 1982, the company was served with complaints which, for all intents and purposes, are virtually identical, each filed by one of its shareholders. The two actions are pending in the Delaware Court of Chancery. The suits are shareholders' derivative actions which name the company as a nominal defendant, and name the following current and past members of the Board of Directors as additional defendants: Hugh M. Hefner, Melvyn N. Klein, Marvin L. Huston, Christie A. Hefner, Donald W. Diehl, Richard S. Rosenzweig, Ben Schneider, William A. Emerson, Victor A. Lownes and Derick J. Daniels. Among other relief, the complaints ask that the individuals pay damages to the company. The complaints allege mismanagement of the company, principally regarding the actions which led to the challenge to the company's United Kingdom gaming licenses in 1981, the sale of its London casinos, and the actions which led to the April 1982 decision concerning the company's Atlantic City gaming license described in Note C. The individual defendants have retained various counsel to defend against these allegations. The company has also retained counsel. The company appointed David Heller, who was elected as a director at its most recent annual meeting, to serve as a litigation committee to review the facts and circumstances surrounding the claims made in these cases and to determine what action the company should take with respect thereto. The committee has determined that the claims made in these cases have no merit and that prosecution of the suits is not in the shareholders' best interests. Pursuant to the committee's direction, the company has moved to dismiss both cases. Litigation on both motions is in an early stage, and the plaintiffs in each action are challenging the independence and findings of the committee. Management does not believe the outcome will have a material adverse effect on the company's financial position.

The company has sold with full recourse approximately $10,200,000 of receivables arising from sales of time-sharing intervals in its former resort hotels. The sales agreement requires the repurchase of any receivables that become more than 120 days delinquent. At June 30, 1983, the outstanding principal balance of the sold receivables less allowances provided was $1,444,000.

(M) Cable Television

Since 1982, the company and Cablevision Program Enterprises (Cablevision), and various affiliates of each, have been discussing the formation of a joint venture to produce an adult-oriented pay television programming service (formerly operated by Cablevision as Escapade) currently operated as "The Playboy Channel." Rainbow Programming Services Company (Rainbow), a Cablevision affiliate, which currently distributes The Playboy Channel, was to have distributed the jointly owned Channel. Following recognition that the joint venture concept created difficult issues of ownership and control as to which agreement could not be reached, the company and Cablevision began discussing a possible alternative arrangement under which Rainbow would continue as exclusive distributor for The Playboy Channel and all programming and other interests in the Channel would be funded and owned solely by the company. The company does not believe that the outcome of these discussions will have any significant adverse effect on the company's financial position.

Because of the recognition that it will not be possible to agree to the terms of a joint venture, the company has consolidated 100 percent of the results of the cable television operations for the year ended June 30, 1983. During fiscal 1982, the cable operations were accounted for under the equity method and, as such, operating results included only 50 percent of the losses from the cable operations. The fiscal 1982 financial statements were not restated as the effect of such restatement is not significant.

(N) Segment Information

The company operates in four industry segments: the publishing segment, the club segment, the video segment and the products segment. Financial information relating to industry segments for fiscal 1983, 1982 and 1981 is presented in a table on page 19.

Notes to Consolidated Financial Statements (continued)

(O) Related Party Transactions

In August of 1982, the company appointed Paul Klein ("Klein") Senior Vice President and President of the company's new Video Division. Klein is also the president of, and a major stockholder in, a closely held corporation known as PKO Television, Ltd. ("PKO"). On August 2, 1982, the company and PKO entered into an agreement (the "August Contract") for a one year period, pursuant to which PKO agreed to allow Klein to provide his exclusive services to the company in the above capacities. The company agreed to pay PKO $180,000 in return for such services, and further agreed to furnish Klein, a resident of New York City, with a residence in Los Angeles (which was later agreed upon to be a residential property already owned by the company), the maintenance thereon, first class travel costs between his residences, and other benefits similar to those available to senior company executives. A bonus arrangement originally part of this agreement was later waived by mutual consent. Since May of 1983, the company has paid Klein's monthly rent on his New York apartment in the amount of $5,900 per month.

Pursuant to other provisions of this contract, the company agreed to pay PKO to produce not more than 12 television programs of the approximately 75 original programs produced for The Playboy Channel in fiscal 1983. PKO was to receive customary overhead and producer's fees, and a share of the net profits of each production after the company recovered its investment and exploited the programs on American and Canadian pay television. These terms are similar to those offered by the company to other third-party producers. The company also agreed to pay PKO a $40,000 monthly advance for overhead, to be recouped by PKO's payment to the company of 15 percent of all amounts PKO received from any source in connection with these programs. Any outstanding balance at the expiration of the August Contract would be paid promptly by PKO in a lump sum. Additionally, PKO gave the company an option to purchase 81 percent of PKO stock for $50,000, exercisable within one year of the termination of the August Contract.

As of August 31, 1983, PKO had delivered seven programs for use by the company pursuant to these arrangements, and agreements were signed for the production of three more programs (which have not yet been scheduled for production). As of June 30, 1983, PKO has received approximately $2,105,000 from the company in gross payments for the production of those programs. Of that amount, (i) $1,442,000 was paid as the basic contractual purchase price of the seven delivered programs; (ii) $146,000 was advanced for production of three additional programs; (iii) $77,000 was advanced to pay for production cost overruns; and (iv) $440,000 was advanced pursuant to the $40,000/month overhead arrangement. Of the last amount, the company has recouped $152,500 from PKO pursuant to the 15 percent agreement stated above, leaving $287,500 to be repaid by PKO in regard to overhead advancements.

The company, Klein and PKO have been negotiating the extension or modification of the August Contract which has now expired. Those discussions include proposals which deal with the company's future payment for Klein of either his Los Angeles or New York housing expenses, but not both, recovery of the outstanding $287,500 overhead and $77,000 production cost overrun advances, and the status of the $146,000 in advances made against projects not yet scheduled.

The amounts involved in other transactions between the company and other of its related parties are not material.

Report of Independent Accountants

To the Shareholders and Board of Directors
Playboy Enterprises, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in shareholders' equity and changes in financial position present fairly the financial position of Playboy Enterprises, Inc., and its Subsidiaries at June 30, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended June 30, 1983, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Chicago, Illinois
August 17, 1983

Price Waterhouse

Corporate Officers	Hugh M. Hefner	Chairman and Chief Executive Officer
	Office of the President	
	Christie Hefner	President
	Marvin L. Huston	Executive Vice President
	Richard S. Rosenzweig	Executive Vice President, Office of the Chairman
	Paul L. Klein	Senior Vice President; President, Playboy Cable Network
	Nat Lehrman	Senior Vice President; President, Publishing Division
	Stephen H. Silverstein	Senior Vice President, Chief Financial Officer
	Don L. Hubbard	Vice President, Administration and Security
	James P. Radtke	Vice President, Internal Audit
	Howard Shapiro	Vice President, General Counsel
	Dale C. Gordon	Corporate Secretary
	Robert A. Marshall	Corporate Controller
	Stephen Spathelf	Assistant Treasurer
Divisional Officers	**Publishing**	
	Nat Lehrman	President
	Lee B. Hall	Senior Vice President, International Publishing
	Walter Joyce	Senior Vice President, Promotion Director
	Arthur Kretchmer	Senior Vice President and Editorial Director, PLAYBOY
	Richard E. Smith	Senior Vice President, Circulation Director
	Jack Bernstein	Vice President, Circulation Promotion Director
	Gerald Calabrese	Vice President and Publisher, GAMES
	Gary Cole	Vice President, Photography Director
	J. P. Dolman, Jr.	Vice President, Assistant Publisher
	Hal Duchin	Vice President, National Advertising Sales Manager
	John B. Mastro	Vice President, Production
	Harry Rosner	Vice President, Director of Operations, Advertising Sales
	Tom Staebler	Vice President, Executive Art Director
	Edward Tashjian	Vice President, Director of Marketing Services, Advertising Sales
	Alan Y. Pardo	President, Boarts
	Video	
	Paul L. Klein	President, Playboy Cable Network
	Joel Katz	Executive Vice President
	Richard V. Sowa	Senior Vice President, Finance and Administration
	Gerald Adler	Vice President, Production Supervisor
	David Lewine	Vice President, Playboy Productions
	Jeanne O'Grady	Vice President, Film Acquisitions
	Clubs	
	Daniel B. Stone	Senior Vice President and Director
	John J. Casey	Vice President, Customer Service
	Robert Howards	Vice President, Advertising and Promotion
	Marilyn R. Smith	Vice President, Merchandising
	Richard D. Smith	Vice President, Club Operations
	Products	
	A. William Stokkan	Senior Vice President and Director
	Models	
	Valerie Cragin	Vice President and Director, Playmate Promotions and Playboy Models
Playboy Foundation	Rebecca Sive-Tomashefsky	Executive Director
	Burton Joseph	Chairman, Board of Directors
	Christie Hefner	Director
	Nat Lehrman	Director
	Susan Margolis-Winter	Director
	Richard S. Rosenzweig	Director
	Margaret Standish	Director

Stock Listings
Playboy Enterprises, Inc., common stock is listed on the New York Stock Exchange and the Pacific Stock Exchange.
Ticker Symbol: PLA

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Chicago, IL 60670

Design: Boller/Coates/Spadaro, Ltd., Chicago

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